

TEACHER RETIREMENT SYSTEM OF TEXAS

TRS Strategic Plan

2005-2009



TEACHER RETIREMENT SYSTEM OF TEXAS

TRS STRATEGIC PLAN

2005-2009

Board of Trustees	Hometown	Term Expires
Terence (Terry) Ellis (Chairman)	New Ulm	August 31, 2005
Mary Alice Baker, Ph.D. (Vice Chair)	Beaumont	August 31, 2005
James W. (Jim) Fonteno, Jr.	Houston	August 31, 2007
John Graham, Jr.	Fredericksburg	August 31, 2009
John Mark Henry, Ed.D.	Galena Park	August 31, 2009
Jarvis V. Hollingsworth	Missouri City	August 31, 2007
Greg Poole, Ed.D.	Conroe	August 31, 2007
Dory A. Wiley	Dallas	August 31, 2009
Linus D. Wright	Dallas	August 31, 2005

Submitted on July 2, 2004

Signed: _____

Ronnie G. Jung
Executive Director

Approved: _____

Terence (Terry) Ellis
Chairman, Board of Trustees

TABLE OF CONTENTS

I.	Statewide Strategic Elements for Texas State Government	1
	State Mission and Philosophy	2
	Statewide Priority Goals that Apply to TRS	3
II.	Agency Mission & Philosophy	5
III.	External and Internal Assessment at TRS	7
	Historical Framework	8
	Primary Functions	8
	Organizational Aspects	10
	Service Population Demographics	13
	Significant Demographic & Economic Trends	15
	Public Perception	18
	Impact of Federal Statutes and Regulations	19
	Other Legal Issues	22
	Fiscal Attributes	23
	Pension Funding Sources and Uses	23
	TRS Administrative Budget	25
	Operating Expense Per Member	26
	Funding for Retiree Health Care Program	27
	Funding for Active Members' Health Care Program	28
	Investments	29
	Actuarial Condition	30
	Physical Facilities and Capital Improvements	31

	Utilization of HUBs	32
	Completed Initiatives for Increased HUB Utilization	33
	Future Initiatives to Increase HUB Utilization	34
	Cost Saving Measures	35
	Summary of Fiscal Attributes	37
	Resources	38
	Technological Developments	39
	Risk Management	43
	Major Challenges	45
	TRS Core Competencies	46
	Benefit Delivery: Retirement Benefits	47
	Benefit Delivery: TRS-Care Health Care Program	48
	Benefit Delivery: TRS-ActiveCare Health Care Program	49
	Benefit Delivery: TRS-HRAccount Health Care Program	51
	Benefit Delivery: Long-Term Care Insurance Program	52
	Investments	53
	Communication	54
	Workforce Contribution	55
IV.	TRS Strategic Goals	57
	Objectives and Outcome Measures	58
	Strategies and Output, Efficiency, and Explanatory/Input Measures	58

TABLE OF CONTENTS

V.	Appendices	61
	A. TRS Strategic Planning Process	62
	B. TRS Organizational Chart	63
	C. Projections of Outcomes for Five-Year Planning Horizon	64
	D. Performance Measure Definitions	66
	E. Workforce Plan	76
	F. 2004 Survey of Organizational Excellence Results	88
	G. Information Resources Strategic Plan	90

Statewide Strategic Elements for Texas State Government

STATE MISSION

Texas State Government must be limited, efficient, and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

Aim high...we are not here to achieve inconsequential things!

STATE PHILOSOPHY

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise we will promote the following core principles:

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party politics, or individual recognition.
- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.
- Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local government closest to their communities.
- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. And just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future and the future of those they love.
- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.
- State government has a responsibility to safeguard taxpayer dollars by eliminating waste and abuse, and providing efficient and honest government.

Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

STATEWIDE PRIORITY GOALS THAT APPLY TO TRS

The strategic objectives of the Teacher Retirement System of Texas, developed in accordance with the board of trustees' fiduciary duties and presented in this document, support the following priority goals of the State of Texas:

Education – Public Schools

To ensure that all students in the public education system are at grade level in reading and math by the end of the third grade and continue reading and developing math skills at appropriate grade level through graduation, demonstrate exemplary performance in foundation subjects, and acquire the knowledge and skills to be responsible and independent Texans.

TRS enhances the well-being of those dedicated to serving in public education by providing retirement and related benefits, which serve as a recruitment and retention incentive for Texas public school employees. This directly supports the state's priority goal for education.

Education – Higher Education

To provide an affordable, accessible, and quality system of higher education that prepares individuals for a changing economy and workforce that furthers the development and application of knowledge through instruction, research, and public service.

TRS directly supports the state's priority goal for education by providing retirement and related benefits, which serve as a recruitment and retention incentive for Texas higher educa-

tion employees.

Health and Human Services

To provide public assistance through an efficient and effective system that promotes the health, responsibility, and self-sufficiency of individuals and families.

TRS supports the state's priority goal for health and human services by providing income and health benefits for retired Texas public education employees and their families. TRS also administers a health benefits program for eligible Texas public school employees and their eligible dependents.

Economic Development

To foster economic opportunity, job creation, capital investment, and infrastructure development by promoting a favorable business climate, addressing transportation and housing needs, and developing a productive workforce.

TRS supports the state's priority goal for economic development by contributing to the Texas economy through disbursement of annuity payments. In FY 2003 these payments totaled approximately \$4.7 billion.

General Government

To support effective, efficient, and accountable state government operations and to provide citizens with greater access to government services while reducing service delivery costs.

TRS supports the state's priority goal for general government by operating efficiently, openly, and by focusing on its core competencies. In addition, prudent pension trust fund investment provides a foundation for ensuring that retirement programs and pension funds are actuarially sound and well-managed.

Agency Mission & Philosophy

AGENCY MISSION & PHILOSOPHY

TRS Mission

The mission of the Teacher Retirement System of Texas is:

1. to deliver retirement and related benefits authorized by law for members and their beneficiaries; and
2. to prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.

TRS Philosophy

We are dedicated to professional, accurate, timely, and cost-effective delivery of services and benefits to members and annuitants.

We are sensitive, caring, and fair to those we serve and to our co-workers.

We take pride in the work we perform and strive to continuously improve.

We are open, responsive, and ethical in the conduct of business with members, annuitants, government officials, and the public.

External and Internal Assessment at TRS

AGENCY SCOPE & FUNCTIONS

HISTORICAL FRAMEWORK

More than 75 years ago, a group of Texas teachers had a profound dream—a program to provide retirement benefits to educators throughout the state. The teachers of Texas expressed their desire for a statewide system, and the legislature responded by proposing an amendment to the Constitution of Texas on the November 1936 ballot. Voters approved the amendment and, with enabling legislation passed in 1937, the Teacher Retirement System of Texas was formed.

Over 38,000 eligible teachers participated that first year. The original responsibility of the system was to provide service and disability retirement benefits to teachers and administrators of the public school systems of Texas, including institutions of higher education. In 1949, legislation expanded membership eligibility to all those employed by public education institutions. In 1985, TRS was assigned to administer a health care program for public school retirees, and legislation enacted in 1999 created the basis for a program to provide long-term care insurance. In 2001, legislation directed TRS to administer a new health care program for eligible Texas school employees and their eligible dependents which began September 1, 2002. As of May 2004, nearly 250,000 individuals were covered under the program with the potential for enrollment increases in the future.

The system still operates today under Section 67, Article XVI, of the Texas Constitution to provide retirement and related benefits for those employed by the public schools, colleges, and universities supported by the State of Texas.

PRIMARY FUNCTIONS

The Teacher Retirement System of Texas serves active and retired public and higher education employees of the state through its four core competencies.

Benefit Delivery - TRS administers an array of benefits, including retirement, disability, death, long-term care, and health care programs. The system is committed to delivering these services in an efficient and professional manner.

Investment Management - TRS manages a pension trust fund for the benefit of its members. The trust fund is presently the sixth largest public pension fund and seventh overall in the nation, based on asset size. The fund is established through contributions from the State of Texas, TRS members and investment returns. Investment returns over the last six years provided 58.5 percent of TRS revenues. TRS is one of the largest funds that internally manages all investments, enhancing trust fund value over time through substantial management cost savings.

Communication With Stakeholders - Consistent with Texas state government philosophy, TRS recognizes that it is up to each individual to make responsible retirement decisions. As subject-matter experts for a number of complex programs, TRS staff are responsible for providing accurate information about the system to all interested parties, including legislative and governing bodies, school districts and institutions of higher education, active and retired members, and the public. TRS' intention is to enable these stakeholders to make informed decisions related to the system, such as benefit decisions made by the legislature or retirement options selected by members. TRS continues to sharpen its communication focus on benefit

delivery and fund management.

Workforce Contribution - In order to provide the level of excellence expected by its stakeholders, TRS must attract, develop, and retain an exceptionally qualified and diverse workforce. Such efforts are of particular importance for the system's professional staff.

ORGANIZATIONAL ASPECTS

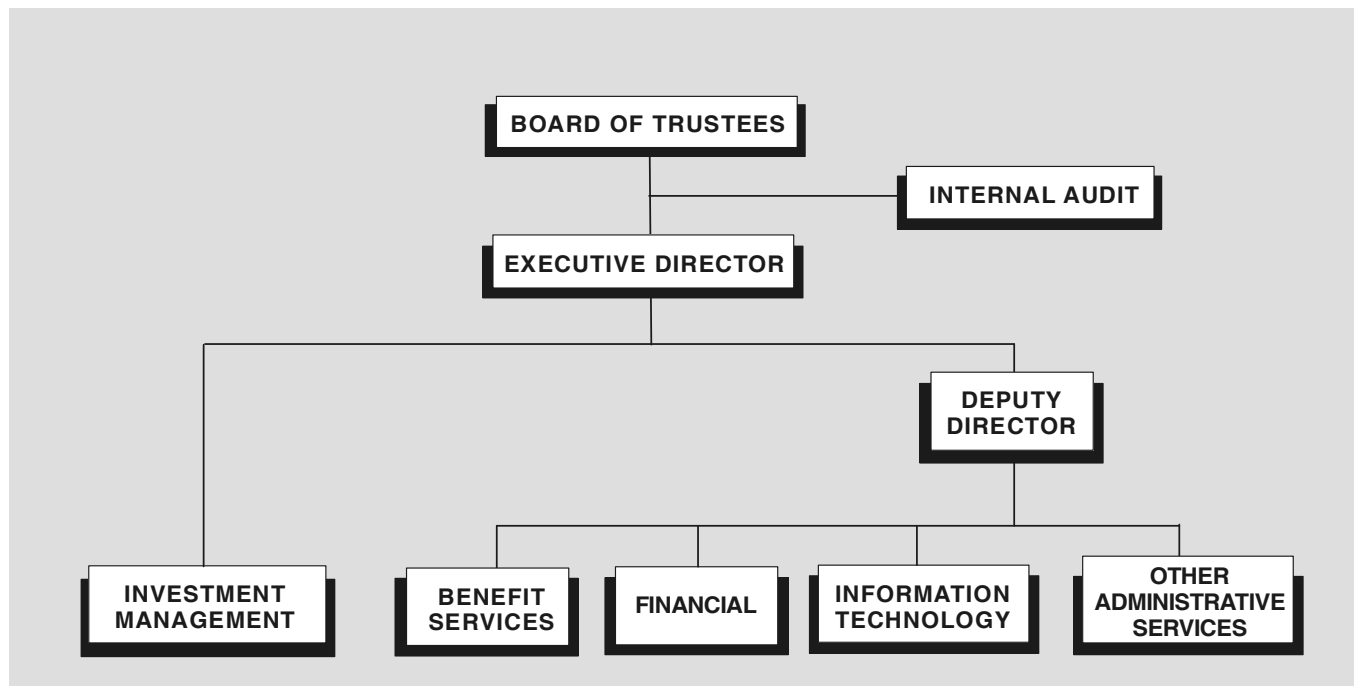
Organizational Structure & Governance - TRS is a state agency governed by a board of trustees appointed by the governor. The executive director, selected by the board of trustees, is the chief executive officer and is responsible for the general administration of the agency. It is a centralized organization headquartered at 1000 Red River Street, Austin, Texas.

The TRS organizational structure is designed to facilitate attainment of our core mission by focusing resources in the ar-

reas of investments and benefit delivery. There are 467 budgeted positions (436 for the pension fund and 31 for insurance functions). These positions apply to the period from September 1, 2003 to August 31, 2004.

During the period covered by this strategic plan, TRS does not expect to increase its staffing for the pension plan beyond the level currently authorized. Any growth in staffing for the health care plans will be directly related to the resources required to serve newly covered school districts.

Organization of TRS



The nine-member board of trustees administers the programs and invests the funds of the system. Board members are appointed by the governor for six-year, staggered terms and are confirmed by the Senate. The governor designates the board's presiding officer.

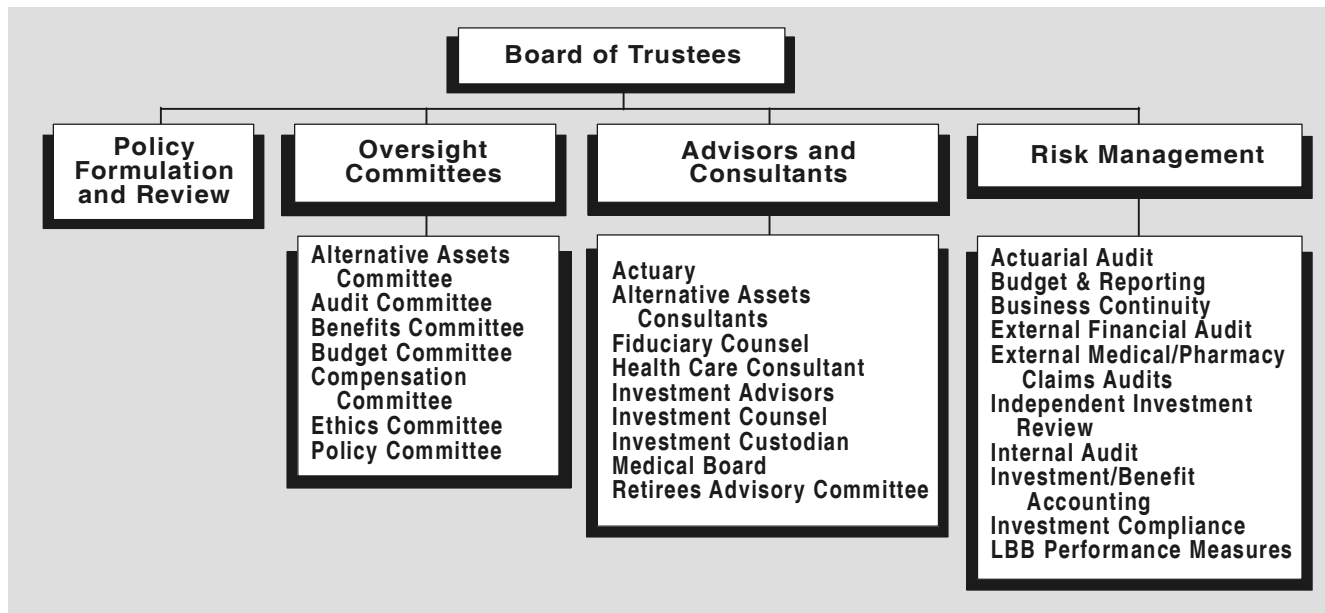
The governor's board appointments include:

- Three direct appointments of persons who have demonstrated financial expertise and are not active or retired members of the system.
- Two appointments from a list of candidates offered by the State Board of Education. Nominees must have demon-

strated financial expertise, have worked in private business or industry, and have broad investment experience, preferably in investment of pension funds.

- Two appointments of active public school employees, selected from a list of the three top vote-getters in an election among active public school employees.
- One appointment of an active higher education member, selected from a list of the three top vote-getters in an election among active members in higher education.
- One appointment of a retired member, selected from a list of the three top vote-getters in an election among retired members.

TRS Governance



The board of trustees is served by a variety of functions, activities, advisors and consultants who provide input for the decision making process. These include the policy formulation and review process, the committees of the board, the specialty advisors and consultants, and the risk management functions and activities.

The TRS governance process is based on leading practices among public pension funds and other institutional investors. The overall purpose is to better assure accountability and integrity in discharging our responsibilities to active and retired members, oversight agencies, and the general public.

The TRS governance process strives to:

- promote appropriate ethics and values within the organization,
- ensure effective organizational performance management and accountability,
- effectively communicate risk and control information to appropriate areas of the organization, and
- effectively coordinate the activities of and communicate information among the board, external and internal auditors and management.

PROMOTE
ENSURE
COMMUNICATE
COORDINATE

SERVICE POPULATION DEMOGRAPHICS

Current Membership - TRS currently serves over a million members, including more than 860,000 active members and 217,000 annuitants, who reside in every region of Texas as well as in a number of countries around the world.

TRS serves 1,356 separate reporting entities by providing benefits to employees who are employed through the Texas education system, including both higher and public education. The total active membership comprises not only public school teachers, but also school and district administration staff, food service personnel, maintenance staff, transportation employees, college and university faculty and staff, and certain other state agency employees as well as a number of charter school employees.

Growth of Membership - TRS' membership will continue to grow, in both the number of active public school employees and retired members. The number of public school employees in the state is expected to rise with the population growth among school-age children.

The retired membership population is expected to rise significantly due primarily to two factors:

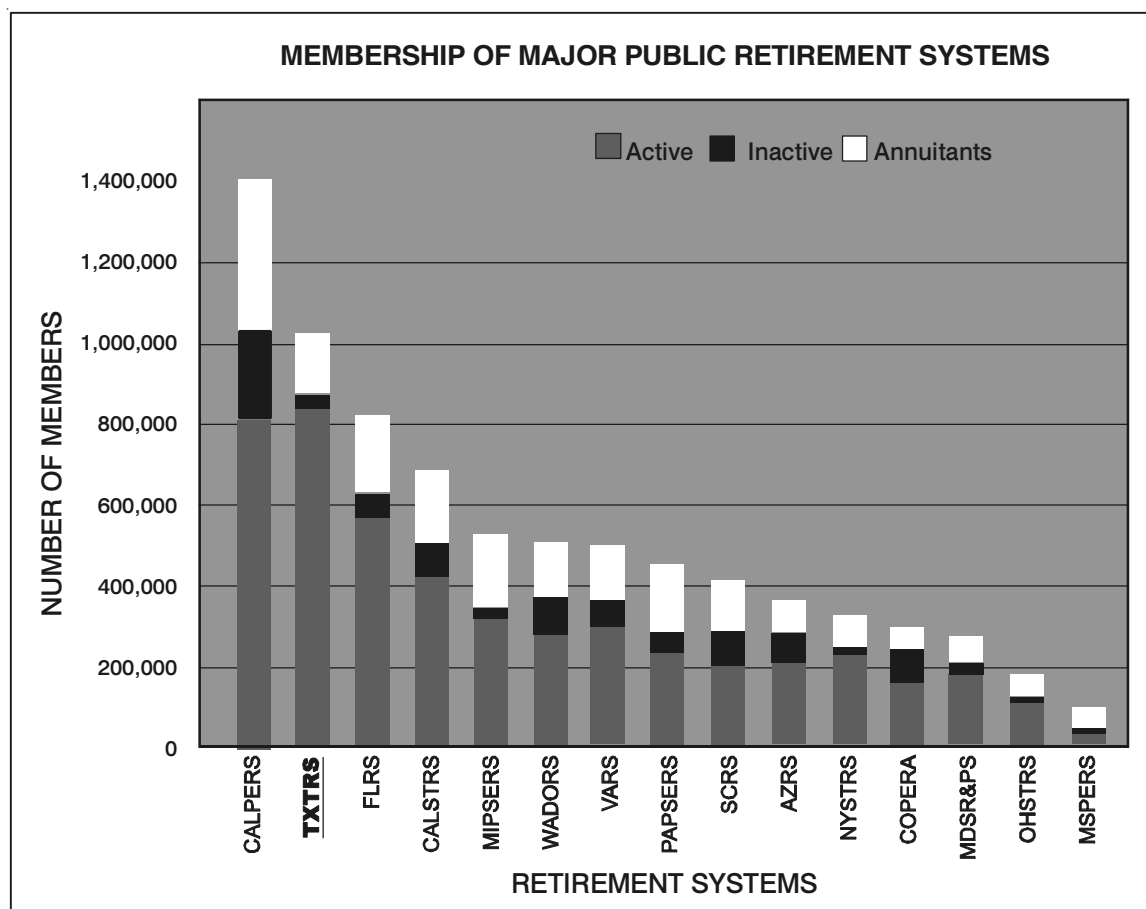
- the growing number of members approaching retirement age, and
- the trend toward earlier retirement.

Active members outnumber annuitants four-to-one, and their contributions to the pension trust fund are an important source of actuarial strength.

Summary of Reporting Entities

August 31, 2003

Public Schools, Service Centers and Charter Schools	1,251
Community and Junior Colleges	51
Universities	43
Medical Schools	8
Other Entities	3
TOTALS	1,356

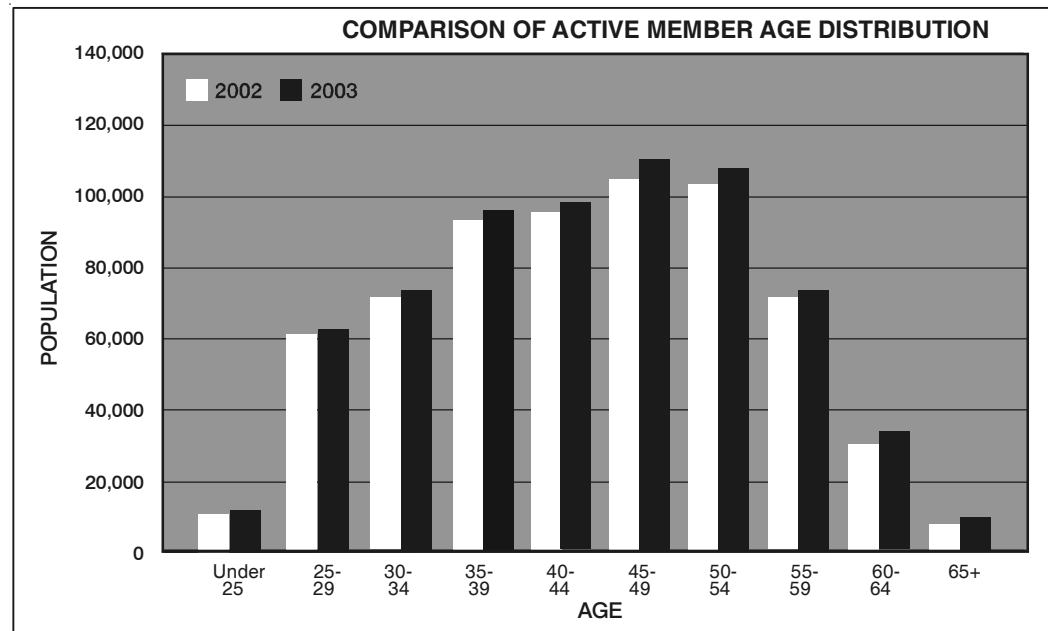


This chart compares the TRS population to other large public retirement benefit plans, and illustrates that TRS is not only one of the largest plans, but also that it has a strong ratio of contributing members to annuitants.

Significant Demographic & Economic Trends

Membership growth is an important factor. However, other important characteristics—including age distribution and compensation trends—also have a significant impact on the sys-

tem. The current active member age distribution is heavily weighted in the 35-54 year age groups. The average active member age (currently 42.8 years) is also increasing over time. These factors are considered in the system's long-term actuarial studies.

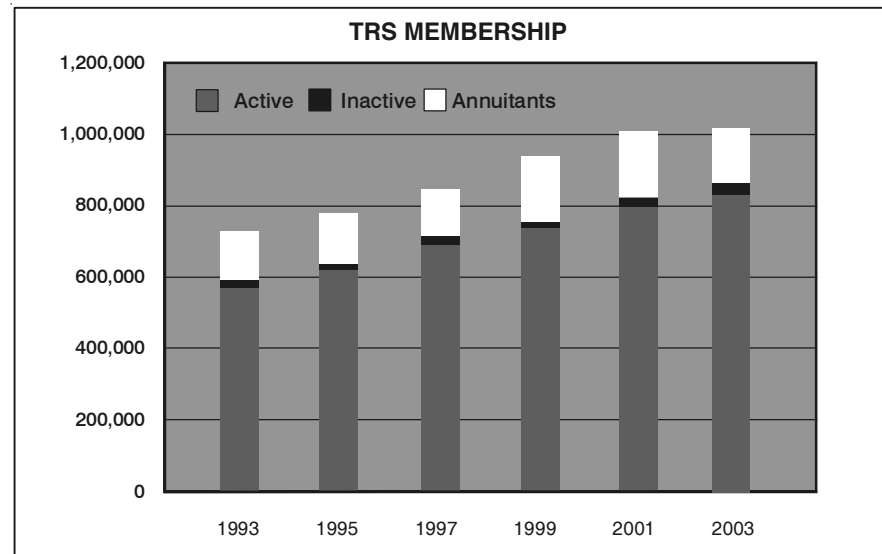


Compensation and Economic Trends - Compensation trends have a significant impact on the retirement system. Compensation levels are established by each of the 1,356 employers served by TRS. A member's average salary is a key element of the benefit formula that establishes the amount of annuity to be paid throughout the retiree's lifetime.

Many factors influence members' retirement and/or withdrawal decisions. The state of the economy, family economic needs, and job satisfaction are important considerations. TRS benefit design is an equally important factor. For example,

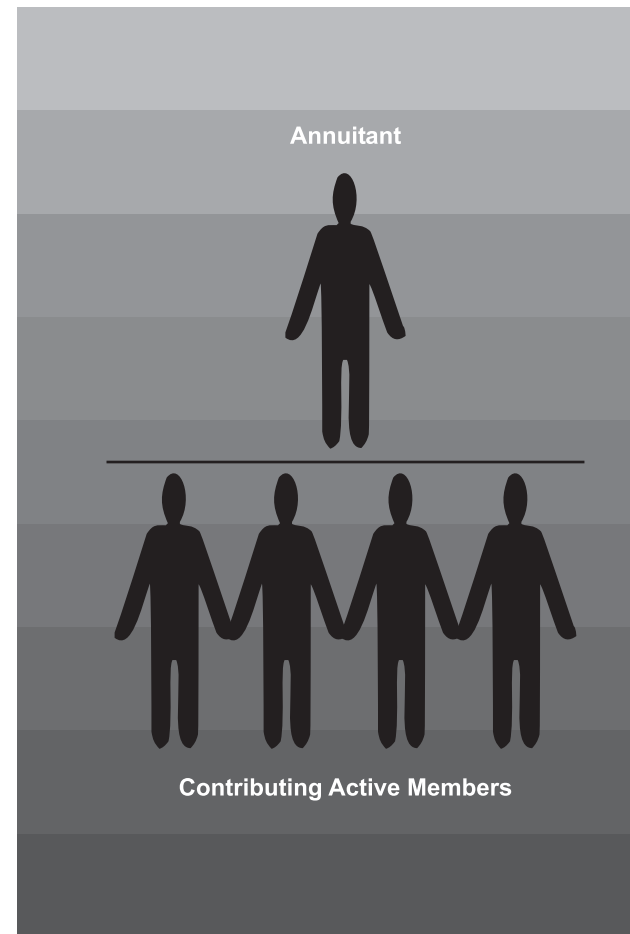
policies relating to employment after retirement can affect retirements as well.

Although salary levels and contribution rates have considerable impact on the system, the balance between these and other factors, such as investment performance and benefit architecture, determines the fund's actuarial solvency. TRS continues to be actuarially sound, with a funded ratio (ratio of actuarial valuation of assets to actuarial accrued liabilities) of 94.5 percent.



Average member profile statistics are remaining fairly stable.

- There are four contributing active members per annuitant.
- Active members average 42.8 years old with 8.8 years of service, and have an average highest-three-year salary of \$34,127.
- On average members retire at age 60.6 with 24.9 years service.
- The average age for all retirees is 70.1.



Public Perception

As America's sixth largest public pension fund and one of the largest public agencies providing retirement, health care and related services to more than a million public education employees, TRS is often in the public's eye. As such, the agency places great importance in meeting the needs of a variety of stakeholders. These stakeholders include TRS members, retirees and their beneficiaries; elected officials; board members; professional associations of public educators; TRS employees; and taxpayers of the State of Texas. TRS strives to be perceived as a model agency that serves the interest of all stakeholders by operating as effectively as possible at the lowest possible cost.

As public servants, TRS employees have demonstrated their commitment to helping those in need in their community. During the 2003 State Employee Charitable Contribution Campaign, TRS was recognized for the largest number of employees contributing to the campaign, the largest amount collected in employee contributions, and the highest per capita employee contribution of any mid-sized state agency.

TRS' main focus continues to be the agency's primary stakeholders: its members, retirees and their beneficiaries. TRS employees strive to provide the highest quality of service to those stakeholders. To ensure success in that effort, TRS conducts member satisfaction surveys and adapts its service delivery processes based on those survey findings. Two recently conducted customer satisfaction projects include focus group discussions in the fall of 2003 and a Member Satisfaction Survey in the spring of 2004.

In late 2003, TRS contracted with the University of North Texas (UNT) to conduct focus groups to solicit member suggestions as to how TRS could improve service quality. TRS used member suggestions from these meetings to implement service improvements.

In the spring of 2004, TRS also contracted with UNT to conduct a member satisfaction survey. This survey polled both active and retired TRS members. Survey objectives were to assess levels of customer satisfaction with TRS benefit counselors, the TRS Telephone Counseling Center, responses to written requests for information, the automated telephone system, Internet services, benefit payments, printed materials and other communications, annual statements of account, TRS facilities, and overall TRS services. TRS is now evaluating these recommendations and will implement additional improvements to better serve its customers.

TRS has continued to improve its Web site by redesigning the site for easier navigation; enabling members to register online for benefit presentations; developing an interactive table of contents for the *TRS Benefits Handbook*; streamlining the online TRS Forms page; enhancing the TRS online service credit purchase calculator; enabling visitors to access TRS rules in a more timely manner; expanding the number of frequently asked questions; and introducing the first of several planned streaming video projects to help TRS members learn about their benefits.

The agency has also recently enhanced its automated telephone system to enable more effective communication with members and the public-at-large. As part of this effort, TRS has

introduced a new automated telephone information system with speech recognition capabilities and enhanced desktop applications to streamline telephone call processes. Additional telephone center improvements are now being implemented and more are planned for the future.

Impact of Federal Statutes and Regulations

Although TRS does not receive federal funds and is not regulated by the federal government, several federal laws affect the administration of TRS benefits, as summarized below.

Internal Revenue Code - The Internal Revenue Code (IRC) has had a profound influence on TRS because, under the IRC, a pension plan may obtain advantageous tax treatment for its participants and for the plan itself by maintaining “tax-qualified” status under Section 401(a). The Internal Revenue Service (IRS) has determined that the TRS pension plan is a qualified plan. In order to maintain its tax-qualified status, TRS must meet the requirements of the IRC on an ongoing basis. Though the requirements create certain limitations and restrictions on retirement plan operations and on use of pension assets for pension purposes only, both the pension trust fund and individual TRS participants receive substantial tax advantages as a result of the plan’s tax-qualified status.

Advantages of qualified plan status include deferred taxation of participants’ contributions and accrued benefits, favorable tax treatment of distributions to participants eligible for rollover, and tax exemption of the income of the pension trust fund. The importance of remaining tax-qualified is recognized by Texas law (Section 825.506, Texas Government Code).

Major qualification requirements include:

- Pension plan assets must be held in trust, and the plan must be administered for the exclusive benefit of the plan participants. Pursuant to this requirement and the Texas

Constitution, Article 16, Section 67, the assets of the TRS system are held in trust for the benefit of members and are used only for programs of retirement and related disability and death benefits.

- The amount of a participant's retirement benefit is limited by IRC, Section 415. The TRS excess benefit arrangement under Section 825.517, Government Code, alleviates the effect of the benefit limits in a manner compatible with the IRC.
- A participant's contributions to TRS each year are limited, which may affect how a participant establishes special service credit.

Qualification requirements also affect the withdrawal of member contributions, the method and timing in which benefits are paid, and several other provisions of the plan.

Additionally, the IRC affects TRS' administration of group health benefit plans and related programs. The federal government has been very active recently in attempting to address the effect of spiraling health care costs on employer benefit plans, with a number of efforts made through the tax code. Through favorable tax treatment of benefits to employees, the federal government has encouraged the development of new types of benefit plans, such as health reimbursement arrangements (HRAs) and health savings accounts (HSAs). The 78th Legislature, Regular Session, created an HRA program effective September 1, 2004, to be administered by TRS. The HRA program would permit employees to receive what is now referred to as the supplemental compensation through a tax-favored account when the funds are used to reimburse eligible health care expenses. TRS continues to monitor federal

developments in this dynamic area, since they affect many aspects of the health benefit programs administered by TRS, including TRS-Care, TRS-ActiveCare, and the new HRA program.

ERISA - The Employees Retirement Income Security Act of 1974 (ERISA) imposes funding and plan design restrictions on pension plans but exempts governmental plans from those provisions. However, ERISA often provides guidance to state pension plans on funding, benefits, or fiduciary issues. TRS continues to monitor any changes made to ERISA to improve protection of retirement savings and benefits.

Medicare - The TRS-Care health benefits program for public school retirees may be affected by changes in Medicare coverage. When benefits to Medicare participants are reduced, costs shift to health insurance companies or self-funded health care plans. Changes in Medicare coverage can have a significant impact on health care plans like TRS-Care, which face rising costs and either must pass those costs to plan participants or obtain additional funding. Expansion of Medicare benefits, such as the recently enacted prescription drug coverage, has the potential to favorably affect some TRS-Care costs, but the full impact will not be known for several years. TRS continues to monitor legislation and regulations to determine the impact of Medicare initiatives on TRS plans.

HIPAA - The Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) require the establishment of national standards for electronic health care transactions and national identifiers for providers, health plans, and employers. They also address the security and privacy of protected health information. HIPAA

regulations regarding the security and privacy of health data affect how protected health information is collected and maintained by TRS. TRS continues to implement HIPAA requirements.

Social Security - Federal Social Security issues often have an effect on TRS, its members, and Texas school districts. Most school districts in Texas do not participate in the Social Security program. This affects TRS and its membership in a number of ways. For example, when the 78th Legislature, Regular Session, created a new 90-day membership waiting period for new public education employees, school districts that do not participate in Social Security found themselves required to enroll the affected employees in Social Security or another alternative retirement plan until those employees could enroll in TRS. Because federal law mandates participation in Social Security when an employee is not enrolled in an equivalent plan, the new membership waiting period has had a ripple effect on districts.

Another example is the recent closing of what has been known as the “last day loophole” in Social Security law. The “loophole” permitted employees who work in positions not covered by Social Security to avoid the effect of the government pension offset (GPO) by working their last day before retirement in a position covered by Social Security. In the last few years, thousands of retiring Texas teachers who worked most of their careers in positions not covered by Social Security chose to work their last day before retirement in one of the relatively few Texas school districts that do participate in Social Security. The last day of employment in a Social Security district permitted the teachers to avoid having their spousal or widow benefits from Social Security “offset” by two thirds of their TRS benefits. In early 2004, Congress passed

amendments to end the “last day loophole” after June 30, 2004. TRS has experienced an increase in retirement applications, with some of the increase undoubtedly attributable to the GPO changes. Additionally, some TRS members are choosing to take early age retirement before July 1, 2004 at least in part to take advantage of the last day provision. Early age retirements affect TRS-Care costs, since early age retirees are not eligible for Medicare and thus result in higher claims costs than retirees who are Medicare-eligible.

TRS continues to monitor other Social Security issues, including any new initiatives relating to GPO, windfall elimination provisions, use of Social Security numbers, and mandatory Social Security coverage, since these issues have potential for significant impact on TRS programs and TRS membership.

Miscellaneous Federal Laws - TRS also monitors various federal laws, such as the Age Discrimination in Employment Act (ADEA) and the Uniform Services Employment and Reemployment Rights Act of 1994 (USERRA), for any effect on programs or membership. For example, both ADEA and USERRA may affect availability of health benefits for members or retirees in various circumstances. USERRA protection of retirement and other employment-related benefits will be increasingly important as some U.S. military personnel return to public education positions in the State of Texas.

In the investments arena, TRS also watches congressional and regulatory developments on issues such as corporate governance, class action lawsuits, and conflicts of interest in the financial services industry. Heightened federal activity on such issues may directly or indirectly affect TRS investments or investment services.

Other Legal Issues

Impact of Court Cases - TRS currently has no cases pending that may have a significant adverse financial impact on the fund. TRS monitors litigation across the country that could establish important precedents concerning plan design, benefits, or investments. Awareness of such cases is important because of the standards they establish for retirement plans and health insurance programs. TRS monitors legal developments in significant class action litigation affecting TRS investments and routinely files claims for settlement proceeds to which the system is entitled. In the health insurance arena, cases addressing denial of coverage, privacy, and other issues are monitored for impact on TRS-Care and TRS-ActiveCare.

TRS has been monitoring developments in federal law concerning age discrimination in health benefits, two of which are of interest. In response to a Pennsylvania federal appellate court case, the Equal Employment Opportunity Commission (EEOC) has proposed a final rule concerning coordinating retiree health benefit plans with eligibility for Medicare. In *Erie County Retirees Association v. County of Erie*, the federal appellate court concluded that the Age Discrimination in Employment Act (ADEA) requires employers to provide health benefits of equal type and value to both retirees with and retirees without Medicare coverage. In other words, an employer could not have different health benefits for retirees enrolled in Medicare and those not enrolled in Medicare. Given the expense of that health coverage, many employers were concerned with this ruling. The EEOC's proposed final rule will permit employers to coordinate the health benefits they provide to retirees with the retiree's Medicare coverage without violating the ADEA.

The United States Supreme Court decided an ADEA case,

General Dynamics Land Systems, Inc. v. Cline in February 2004. In that case, the Court concluded that an employer does not violate the ADEA by favoring older employees over younger employees even if the younger employees are within the ADEA's protected class. Both of these developments parallel TRS' interpretations and are favorable to TRS and its members.

Potential State Issues - Major state statutory changes affecting the TRS pension trust fund, benefit plan design, or its operations are not anticipated. TRS continues to monitor developments and provide information to state leadership as requested, particularly as public education funding and reform efforts may affect TRS benefits, eligibility, and retirement trends.

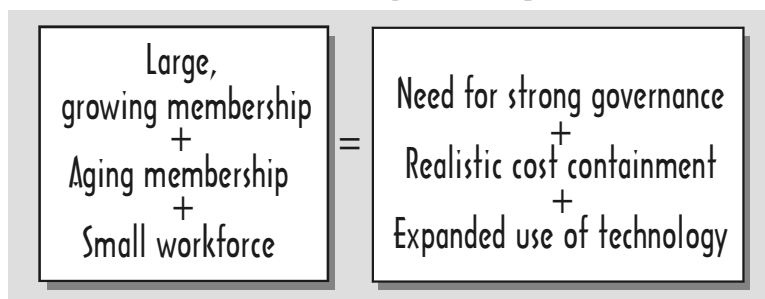
Future funding of the TRS-Care health benefits program for retirees will be a challenge. The group health insurance trust fund faces the ongoing challenge of a mismatch between established revenue sources and the growing increase in health care costs. Legislative changes to TRS-Care eligibility will take effect September 1, 2004, with the cost impact yet to be determined. In the short term, TRS has seen an increased level of retirement activity, possibly due in part to the impending eligibility and Social Security changes. In the long-run, eligibility changes should somewhat lessen the escalation of TRS-Care costs.

Employment after retirement also presents policy and funding issues. Though employment after retirement may offer a way for school districts to keep experienced teachers in the classroom and for teachers to receive both a retirement benefit and a paycheck, unrestricted employment after retirement may encourage earlier retirements, with an adverse impact on TRS pension funding. Early retirement by TRS members not yet eligible for Medicare benefits also puts an added financial burden on TRS-Care funding.

Fiscal Attributes

The formula for effectively administering the system in the face of changing demographic trends is simple to illustrate, but a challenge to accomplish.

Administering the System



Pension Funding Sources and Uses

Sources of Revenue - A public pension fund has four basic sources of revenue:

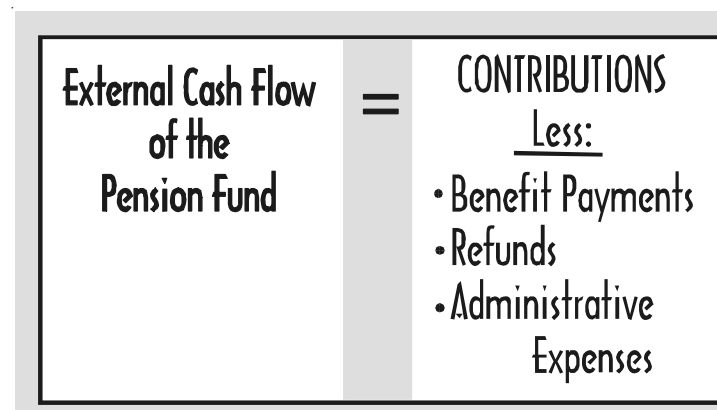
- Member contributions
- State contributions
- Employer (reporting entities) reimbursements
- Earnings on investments

Uses of Funds - There are also four basic uses of funds:

- Benefit payments
- Withdrawals of member contributions (refunds)
- Investments
- Administrative expenses

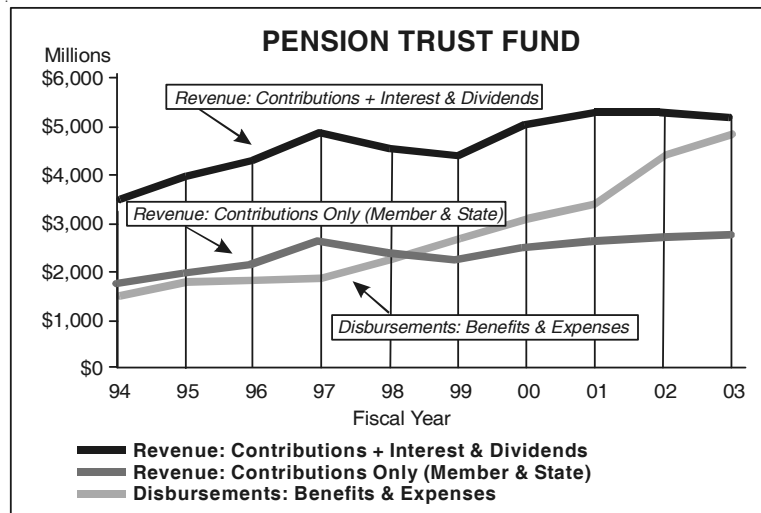
The sources and uses of funds related to investment activities are considered **internally** generated cash flow. All other sources and uses are **external**. External cash flow is a measure of a fund's ability to grow without relying on investment income or redemptions to fund current liabilities.

The sum of member and employer contributions minus the sum of benefit payments, refunds, and administrative expenses equals the external cash flow of the pension fund. When the contributions exceed expenses, the cash flow is positive. Positive external cash flow contributes to the growth of the fund by allowing all investment earnings to be reinvested immediately.

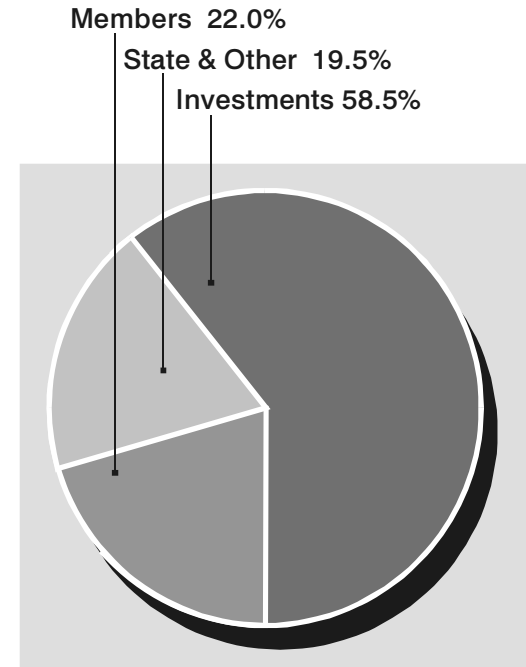


However, moving from a positive to a negative external cash flow is a normal occurrence for a maturing pension fund. The primary implication of a negative external cash flow is that when investment earnings are used to pay benefit costs, they cannot be reinvested.

TRS' Cash Flow - TRS' external cash flow is negative. However, cash flow from interest and dividend income is more than sufficient to cover the negative cash flow. It is expected that the cash generation capacity of the trust, including contributions, interest and dividend income will continue to be sufficient to fund cash requirements for benefit payments.



**Pension Trust Fund
Sources of Income
Six-Year Average (1998 - 2003)**



Statement of Changes in Plan Net Assets**PENSION TRUST FUND**

Additions:		2003
Member Contributions	\$	1,516,801,535
State Contributions		1,239,070,201
School District Contributions		182,536,228
Investment Income		7,806,278,091
Other		159,912,071
TOTAL ADDITIONS		\$ 10,904,598,126
Deductions:		2003
Benefits	\$	4,729,277,323
Refunds of Contributions		186,082,670
Administration		23,428,162
Transfers to Employees Retirement System		28,609,871
TOTAL DEDUCTIONS		\$ 4,967,398,026
NET INCREASE		\$ 5,937,200,100

Fiscal year 2003 benefit distributions were up 8.8% to \$4.7 billion, due to an increase in the number of retirees, an increase in deferred retirement option payments, and the increasing number of retirees electing the partial lump sum option.

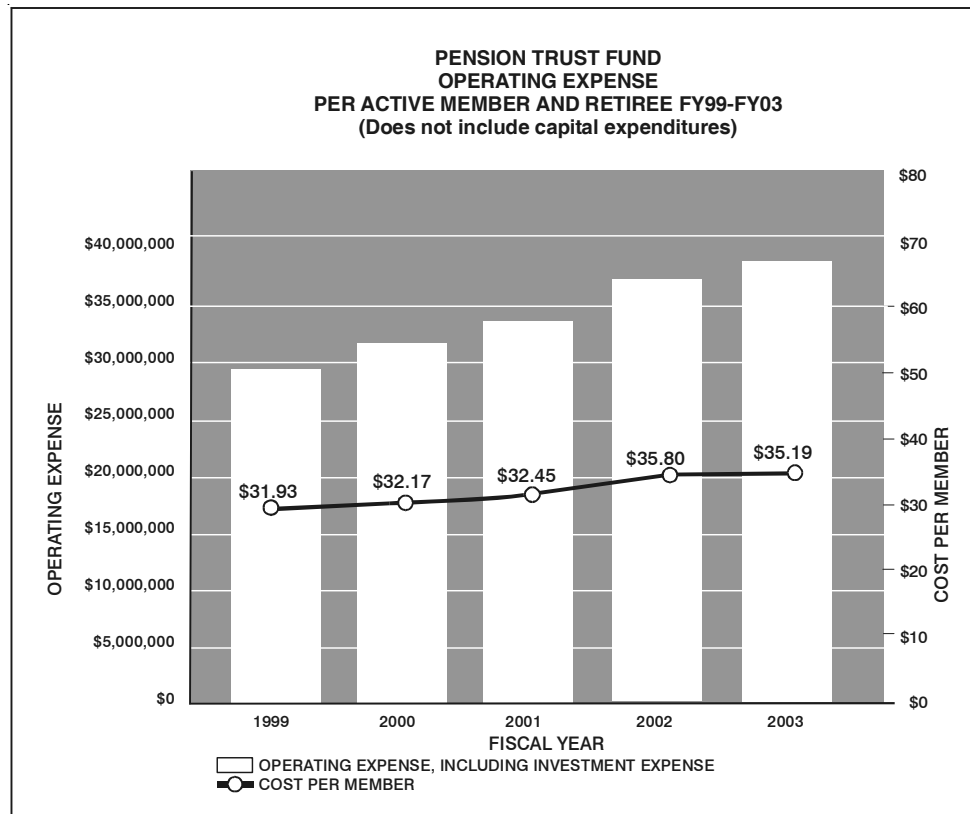
TRS Administrative Budget

The Pension Trust Fund administrative expenses are controlled by an annual budget approved by the board of trustees. The State of Texas approved a budget of \$44,360,000 and \$43,440,000, for fiscal years 2004 and 2005, respectively, for administrative operations. Funding comes directly from the TRS Pension Trust Fund.

Budget Needs - TRS is committed to maintaining an efficient and effective administration that is accountable to its stakeholders. Continued growth in membership and in the size of the fund is placing considerable strain on resources, which could potentially limit TRS' ability to meet members' service needs.

Did You Know . . .

... TRS has a low operating budget per total membership ratio and one of the lowest administrative cost structures of any major public pension fund in the U.S.? The TRS total cost per member is currently less than \$36 a year, or \$3 per month, which is a fraction of the cost experienced by large public retirement plans on average.



In recent years, new benefit programs, such as the Deferred Retirement Option Plan (DROP), Partial Lump Sum Option (PLSO), and additional types of service credit, required increased workloads for the TRS staff. Cost containment efforts implemented in FY 2003 resulted in a slight decrease from 2002.

Funding for Retiree Health Care Program

TRS-Care was first offered as a new service to school district retirees in 1986. At that time, projections indicated that funding for the program would last approximately 10 years. Fund longevity has exceeded this estimate. The net assets of the fund were at a deficit at August 31, 2003. Continuation of the current program since that time has required supplemental legislative appropriations.

The TRS-Care fund for retirees is a self-funded plan that is separate and distinct from the TRS Pension Trust fund. It receives contributions from the state's General Revenue Fund. Projected state contributions for the 2004 and 2005 fiscal years are \$206,947,506 and \$217,294,882, respectively. In addition, the legislature appropriated \$256,197,464 for FY 2004 and \$64,172,167 for FY 2005 as supplemental funding. Other funding sources for the program include active member contributions, retiree contributions, and investment income. Beginning in FY 2004, school districts also began making contributions to the program.

The board of trustees approves an annual budget controlling the administrative costs of the program.

Statement of Changes in Net Assets HEALTH CARE TRUST FUND-RETIRED PLAN

Additions:	2003
Retiree Premiums	\$ 162,917,666
State Contributions	265,038,205
Active Member Contributions	49,170,399
Investment Income	3,394,956
TOTAL ADDITIONS	\$ 480,521,226
Deductions:	2003
Claims	\$ 571,744,362
Claims Processing	19,388,818
Administration	2,301,516
Transfer to TRS-ActiveCare	42,000,000
TOTAL DEDUCTIONS	\$ 635,434,696
NET DECREASE	\$(154,913,470)

Funding for Active Members' Health Care Program

The 77th Legislature established a statewide health coverage program for active school employees and their dependents. TRS-ActiveCare went into effect September 1, 2002 and provides health coverage to employees of school districts, charter schools, regional education service centers, and other educational districts.

TRS-ActiveCare is a self-funded plan that is separate and distinct from the TRS Pension Trust Fund. The monthly cost of the plan must cover the cost of claims and administrative costs with some contingency reserve for unfavorable actual performance relative to expectations. The program is funded from several different sources:

- 1) The school districts are required to contribute a minimum of \$150 per month per covered TRS member (school districts may contribute more if they choose).
- 2) The state contributes \$75 per month per covered TRS member.
- 3) The employee's share for the plan chosen is the amount remaining after employer and state contributions.

The board of trustees approves an annual budget controlling the administrative cost of the program.

Statement of Revenues, Expenses and Changes in Net Assets TRS-ActiveCare Enterprise Fund Active Plan

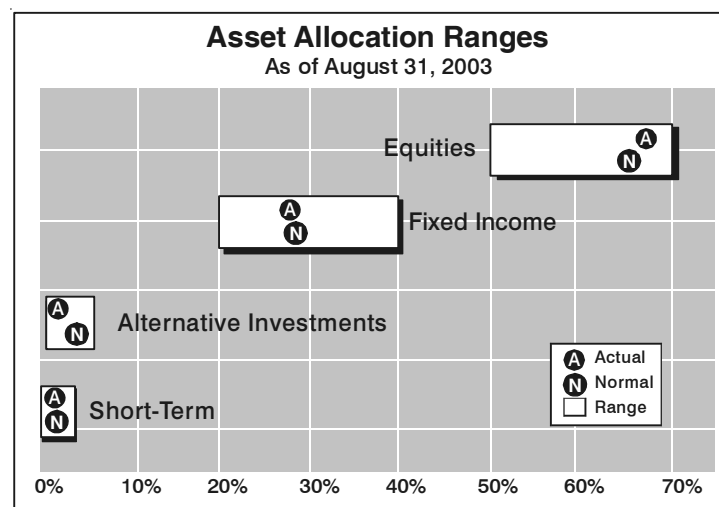
		2003
Revenues:		
Health Care Premiums	\$ 584,572,852	
Administrative Fees	136,288	
On Behalf Fringe		
Benefits Paid by State	31,266	
Investment Income	2,459,154	
TOTAL REVENUES	\$ 587,199,560	
		2003
Expenses:		
Health Care Claims	\$ 473,450,544	
Health Care Claims		
Processing	42,411,388	
Administrative		
Expenses	1,771,441	
TOTAL EXPENSES	\$ 517,633,373	
Legislative Appropriations		
Transfer from Retired		
Plan	\$ 42,000,000	
Change in Net Assets	\$ 111,566,187	

Investments

Objectives - Prudent pension trust fund investment provides the foundation for achieving the goal of an actuarially sound fund. The TRS investment portfolio is structured to achieve a long-term return that equals the assumed actuarial rate of return adopted by the board of trustees. The system maintains a long-term investment horizon that allows for investment in various asset classes with cyclical performance such as long maturity bonds, equities, and alternative assets. Each asset class is reviewed and must be approved by trustees prior to investment.

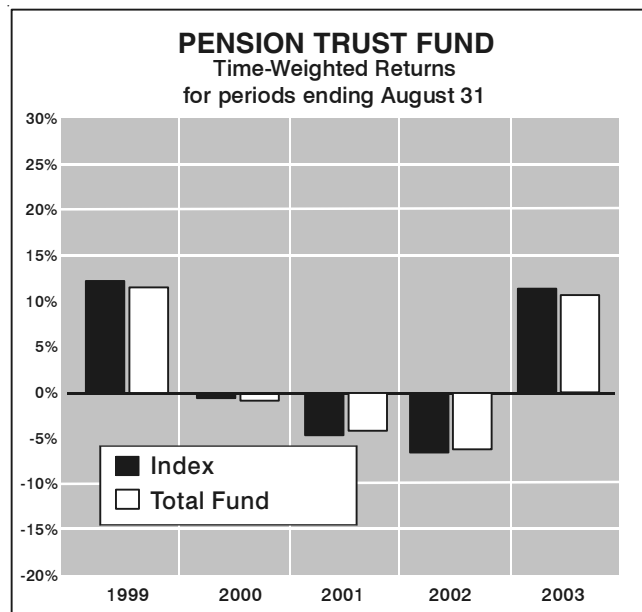
Composition - To determine the appropriate asset classes and the amount of funds that should be allocated to each class, the board has adopted a policy requiring an asset/liability study be conducted at least every five years. The purpose of the study is to develop an asset allocation standard that meets the investment risk tolerances of the board and which is projected to meet the long-term performance objectives of the fund. By establishing specific asset allocation targets for the fund, TRS ensures diversification and controls risk.

The asset classes and the allocation ranges currently established are depicted in the following chart. TRS completed an asset/liability study in 2003, which led to material changes in asset allocation policy. The most significant change was the addition of a 3.0 percent allocation to real estate equity, funds and/or partnership investments. With the change and upon funding, alternative assets will comprise 8.5 percent of the fund's investments. Funding is expected to take up to five years. The allocation change achieves the goal of portfolio diversification, reducing risk with higher expected returns.



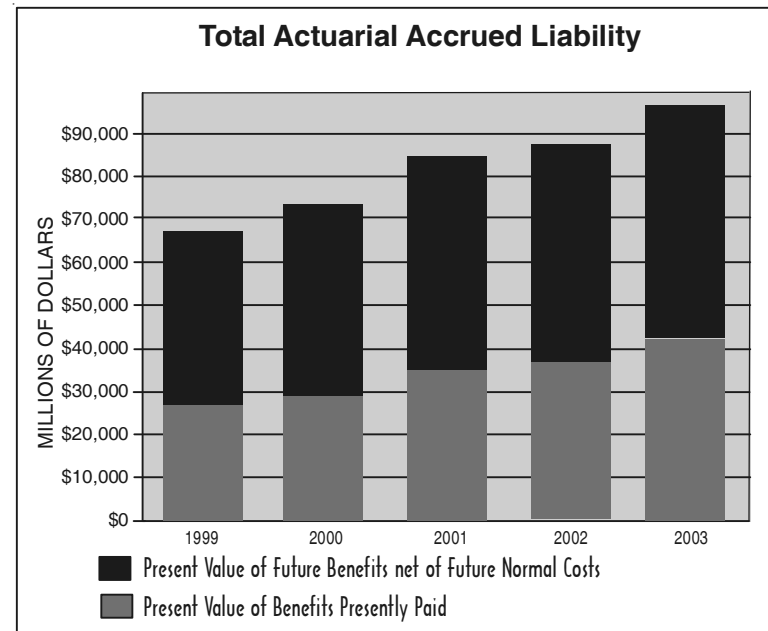
Performance - The TRS investment policy establishes objectives against which the performance of the total portfolio and each of its components will be measured. Investment performance and portfolio characteristics are calculated and compared to established benchmarks on a quarterly basis. Differences in investment policy, asset allocation strategies, and risk tolerance should be considered when benchmarking against peer groups or widely accepted indices.

Soundness - During FY 2003 the fund experienced improved conditions in the equity markets. Equity markets declined in FYs 2000, 2001 and 2002 and then rebounded in 2003 ending the five-year period virtually unchanged. The total fund's five-year rate of return for the period ending August 31, 2003, was 4.8 percent, which is below the eight percent long-term policy target. The total net assets of the fund on August 31, 2003, were \$77.6 billion.



Actuarial Condition

After being fully funded for four consecutive years ending with FY 2001 (actuarial valuation of assets were greater than actuarial accrued liabilities), the actuarial condition of the trust fund has declined in the past two fiscal years. As of August 31, 2002 and 2003, the Unfunded Actuarial Accrued Liability (UAAL) was \$3.28 billion and \$5.23 billion, respectively. The system's underfunded status is the result of the cost of recent benefit increases coupled with unfavorable market conditions in FY 2001 and FY 2002.



- The actuary's report indicates that, as of August 31, 2003, the pension plan's assets plus future required contributions are insufficient to pay benefits to retirees and current active members upon retirement. However, the system maintains a funded ratio (ratio of actuarial assets to actuarial accrued liability) of 94.5 percent.
- Benefit increases caused the pension plan's normal cost rate (the actuarial cost of benefits for newly hired participants) to rise to 12.46 percent of payroll. The combined employer and employee contribution rate of 12.40 percent of pay is now 0.06 percent less than the normal cost. State law precludes further benefit increases as long as the contribution rate remains below the pension plan's normal cost.
- Because of favorable market conditions resulting in positive investment returns of 11.3 percent for FY 2003, the net assets of the pension trust fund increased from the prior year by \$5.9 billion to \$77.6 billion.
- The system uses a five-year smoothing process to smooth out peaks and valleys of annual investment returns in developing annual actuarial returns. Thus, 40 percent of the FY 2001 unfavorable annual investment returns and 60 percent of the FY 2002 unfavorable annual investment returns will be absorbed in fiscal years 2004-2006.

Physical Facilities and Capital Improvements

TRS owns its office facilities located at 1000 Red River Street in Austin. The west building was constructed between 1971-1973 and totals 74,153 square feet. The east building was constructed between 1987-1990 and totals 136,790 square feet. The TRS buildings house all employees of the pension trust fund, the retiree health care program and the active health care program.

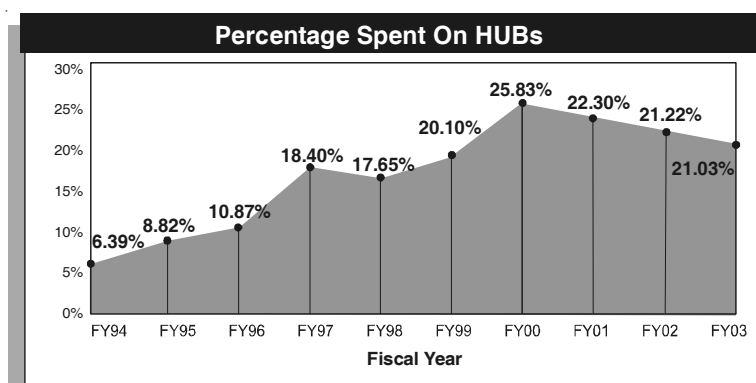
The capital improvements projected for this strategic planning period are those required to keep pace with demands on the agency's information technology resources, as well as some essential maintenance and improvements to physical facilities. The planned improvements include:

- An upgrade in data storage for additional capacity and functionality.
- An upgrade to the enterprise server to provide additional capacity, compatibility, and functionality.
- An upgrade to the automated tape library architectures for the network servers and enterprise server.
- Expanded use of Storage Area Network (SAN) storage, which migrates mission-critical server storage to leverage the SAN's data protection, backup/recovery, and performance improvements.
- An upgrade of 25 percent of network servers each year to meet the demands of new applications and operating system requirements.

- An upgrade of 25 percent of personal computer workstations each year (a 3-4 year life cycle) to meet the demands of new applications and operating system requirements.
- An upgrade of internet connections.
- Integration of PBX, Voice Mail, Interactive Voice Response (IVR), Web-based Services, and Call Center systems, based on recommendations from the consulting group advising TRS on needs of the Telephone Counseling Center.
- Replacement of air conditioning system air handlers.
- Retrofitting the building elevator controls.
- Retrofitting building air pressurization controls.
- Replacement of building ceiling.
- Upgrading the building security systems.
- Implementation of pension legislation as appropriate.

Utilization of HUBs

TRS actively seeks diversity among external business associates, recognizing that such good-faith efforts lead to enhanced organizational effectiveness. To that end, TRS recognizes the importance of directing its expenditures toward Historically Underutilized Businesses (HUBs) and will continue to develop initiatives to promote and increase HUB opportunities. These initiatives have been successful as evidenced by the substantial progress in improving HUB utilization over the past 10 years. These initiatives included subcontracting efforts and attending HUB Economic Opportunity Forums throughout the state and hosting HUB forums at the agency. TRS is committed to achieving state goals and continues to make a good faith effort in all areas. As an agency headquartered in Austin without field or satellite offices, TRS' purchasing efforts are centralized. However, the HUB coordinator travels to events and forums throughout the state to encourage participation from HUB vendors statewide.



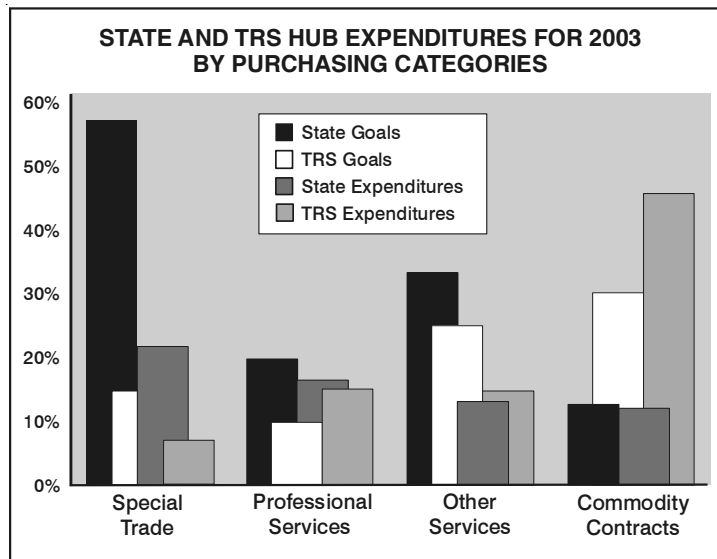
HUB 2003 Expenditures as Percentage of Total Expenditures - TRS ranked 16th out of 210 state agencies, spend-

ing more than \$5 million with the largest percentage of eligible expenditures spent with certified HUBs for fiscal year 2003. TRS' HUB utilization was 21.03 percent for 2003.

HUB Expenditures Compared to State's HUB Expenditures - TRS spends funds in four of the state's purchasing categories:

- All special trade construction contracts
- Professional services contracts
- All other service contracts
- Commodities contracts

TRS has no expenditures in two of the state's categories: "Heavy construction other than building contracts" and "All other building construction including general contractors and operative building contracts."



Completed Initiatives for Increased HUB Utilization

- In 2003, TRS participated in 12 Texas Building and Procurement Commission (TBPC)-sponsored Economic Opportunity Forums, State Senator Forums, and numerous other minority enterprise development meetings and HUB meetings.
- Continued staffing a HUB coordinator who attends various forums and develops and distributes information internally and externally to facilitate and promote HUB participation.
- TRS Board of Trustees approved and adopted HUB rules.
- HUB information was added to TRS Web site.
- Identified and assisted HUB vendors with completing certification documentation.
- Encouraged prime contractors to use HUB subcontractors.
- Issued the "HUB Annual Status Report" and presented it at the TRS Board of Trustees December 2003 meeting.
- Established an "Open Door" approach with HUB investment firms.
- Continued to encourage the use of HUB or minority-owned investment firms in various Requests for Proposals.
- Developed and distributed information to facilitate and promote HUB participation.

- Co-hosted third annual HUB forum with Texas Workforce Commission.
- Conducted business with approximately 22 new HUB vendors resulting in expenses of \$485,774, and three graduated HUB vendors resulting in expenses of \$430,807.
- Sponsored first mentor-protégé agreement with two HUB vendors.
- The Investment Division - issued a “Request for Qualifications Limited to HUB Brokerage Services” to identify qualified HUB firms; continued to encourage the use of HUBs or minority-owned firms in various requests for proposal.
 - Domestic Equities - Program initiated in 1994; currently utilizes seven minority-owned brokerage firms, two of which are Texas based; in FY03, paid commissions of \$1.2 million (4.4 percent of Total Domestic commissions) to minority brokers.
 - International Equities - For several years, TRS has conducted trades with minority- or Asian-owned firms.
 - Fixed Income - Entered into an agreement for a \$250-million investment in a minority-owned high yield partnership investment.
 - Alternative Assets - Invested in Advent, a convertible arbitrage partnership fund managed by a minority-owned firm; continue to encourage use of minority managers in private equity funds.

Future Initiatives to Increase HUB Utilization

TRS is committed to reaching the state’s goal for HUB utilization, and will continue to make a good faith effort to do so.

- TRS will continue to support and implement responsibilities as required by Senate Bill 178, 76th Regular Session of the Legislature, that include:
 - ◆ Support the responsibilities of the HUB Coordinator
 - ◆ Sponsor HUB Forum programs
 - ◆ Implement a mentor/protégé program
 - ◆ Continue the usage of HUB subcontracting plans and determine subcontracting opportunities for contracts of \$100,000 or more.

TRS will continue to:

- Encourage (and in some instances require) prime contractors to use HUB subcontractors.
- Participate in the Economic Opportunity Forums sponsored by the Texas Building and Procurement Commission (TBPC) and state senators and representatives, as well as other conferences or conventions that provide contract opportunities and training to HUBs and agency purchasing staff.
- Identify non-certified HUB vendors and educate them on state purchasing rules and regulations.
- Assist non-certified HUB vendors in completing the documentation required to become certified.

- Host HUB Forums with other state agencies.
- Conduct one-on-one meetings with HUB vendors and encourage HUB certification.
- Encourage vendor participation in the Mentor-Protégé Program.

Cost Saving Measures

TRS has one of the lowest administrative cost structures of any major public pension fund in the United States. Nevertheless, the agency continually looks for ways to offer a better value to members and to the state.

Following are examples of recent cost saving measures:

Pension Trust Fund

1. A new contract for custodial services and securities lending began in September 2003 that incorporated additional cost savings for the system which included the custodian paying for software and training expenses that were previously paid for by the system.
2. TRS investment staff manage the approximate \$77 billion pension trust fund. In fiscal year 2003, the total direct expenses for this function were less than \$10 million. It is likely that a more commonly used approach of engaging external managers for a substantial portion of the trust would have raised total cost ten times this amount. Thus, internal management results in quite substantial annual savings to the trust, consequently benefiting members and the state. TRS' ability to continue this management model is contingent on the system's ability to retain personnel with appropriate investment skills.
3. During these past two years TRS implemented various cost containment efforts to reduce administrative expenses. Such actions include:
 - Out-of-state travel and foreign travel, unless it was mission-critical, was eliminated during the second half of fiscal year 2003, and resumed on a limited basis for 2004.

- In-state travel was limited to mission-critical purposes.
- The hiring of new staff to replace vacancies was limited.
- Employee compensation increases were deferred in the second half of fiscal year 2003 and limited during 2004.
- New contracts for consultants were deferred until fiscal year 2004.
- Non-mission-critical capital expenditures were deferred until fiscal year 2004.
- Continued to reduce the number of contract system programmers through less costly recruiting and retentions of experienced staff and through training initiatives.
- Continued to negotiate more favorable contract for acquisition and renewal of software to include other value-added services from the vendor community.
- Reduced postage cost by contracting with an outside vendor to presort first class mail.
- Streamlined operations to reduce overtime worked.

Inasmuch as these savings are largely savings to the pension trust fund, they do not directly impact state appropriations. However, in an indirect and measurable fashion, they serve to incrementally improve trust funding. As a result, the agency believes that they help the state and members by improving funding condition, helping sustain present benefits at present contribution rates, or providing additional funding for legislative consideration of benefit changes.

Retiree Health Care Program (TRS-Care)

4. The Texas Legislature adopted new TRS-Care eligibility criteria for retirements after September 1, 2004 that will

generally increase the age and/or length of service for enrollment in TRS-Care. It is estimated that this will slow the annual growth rate of the program and achieve greater savings through coordination of benefits with Medicare as the primary coverage.

5. The TRS Board of Trustees approved a new TRS-Care premium structure to implement recent legislation allowing premium differentials based on years of service credit and Medicare eligibility. Premiums were increased effective September 1, 2003 and will again increase effective September 1, 2004.
6. The board increased TRS-Care pharmacy copayments effective September 1, 2003 and approved medical plan deductible and copayment increases effective September 1, 2004.
7. Beginning September 1, 2003, the TRS Coordinated Care Network (TRS-Care's participating provider network) was restructured to further improve participating provider discounts. To date, this has added an additional \$50 Million in savings to the projected annual managed care savings. This restructuring is 70 percent complete and is scheduled to conclude by August 31, 2005.

These savings initiatives will help preserve the solvency of the TRS-Care program.

Public School Employees Health Care Program (TRS-ActiveCare)

8. Effective September 1, 2003, the TRS Board of Trustees increased mail order pharmacy co-payments for TRS-ActiveCare Plans 2 & 3 and increased the coinsurance per-

centage and out-of-pocket maximums for Plan 3. The savings from these changes allowed the Trustees to implement a five percent premium increase in lieu of the 9.5 percent increase indicated by annual trend minus contingency reserves. This translates into approximately \$32 million in savings to the program.

9. Effective September 1, 2004, TRS-ActiveCare will utilize a specialty pharmacy program for certain injectable drugs. This change is expected to save the program money on many injectable drugs that are currently being dispensed through physician offices. Medical plan experience is insufficient to accurately project the savings at this time, but similar plans have realized significant savings through specialty pharmacy programs.
10. Effective September 1, 2004, the TRS Board of Trustees successfully renegotiated the pharmacy benefit manager contract and authorized a change in the prescription drug program for TRS-ActiveCare Plans 2 & 3 that encourages the use of mail order for long-term maintenance medications. These changes will save the program approximately \$8.2 million in FY 2005.
11. Effective September 1, 2004, the TRS Board of Trustees successfully renegotiated the contract with the health plan administrator resulting in a projected savings of approximately \$5 million in FY 2005.

Summary of Fiscal Attributes:

- TRS' pension trust is in sound financial condition.
- Continuation of the retiree health care program will require an increase in funding from existing or new sources.
- The 10-year actual investment performance exceeds the actuarial assumption rate; however, recent market declines will challenge the system's ability to achieve the eight percent actuarial rate in the future.
- Capital expenditures planned for 2005-2009 relate to TRS' technology infrastructure and for the repair and renovation of TRS buildings.

Resources

One of TRS' strategies for success is to attract, develop, and retain a diverse workforce that is informed, capable, energized, and committed to fulfilling the TRS mission. This is accomplished, in part, by maintaining effective programs in:

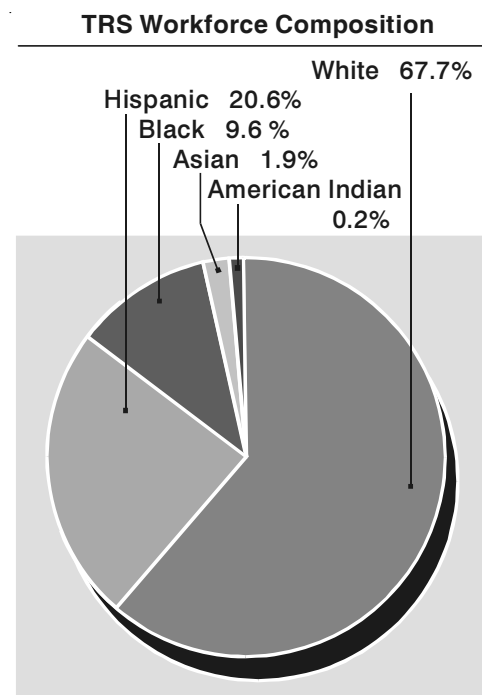
- **Compensation and Benefits** to ensure that overall employee compensation is externally competitive and internally equitable.
- **Performance Management** to maintain a systematic approach for providing accurate, timely performance feedback to agency staff.
- **Recruitment and Retention** to assist managers in recruiting, selecting, and retaining qualified employees.
- **Training and Staff Development** to provide resources to support employees in strengthening job knowledge and skills and enhancing their contribution to TRS.

Workforce Analysis/Planning - During the strategic planning process, TRS conducted a thorough workforce analysis, which included planning for future staffing needs and retaining institutional knowledge through succession/continuity planning for critical staff. See Appendix E for detailed information.

Workforce Diversity - TRS' *Workforce Diversity Program*, as required by the Civil Rights Division of the Texas Workforce Commission, outlines the agency's commitment to attracting and retaining a diverse workforce. Initiatives under the program include outreach advertising and recruiting efforts in historically minority-oriented venues, consistently reporting minority representation in various job categories to senior management, and agencywide training efforts to increase aware-

ness and help maintain a fair and respectful work environment. The overall representation of minorities in the TRS workforce exceeds that of the available civilian labor force in the Austin/San Marcos metropolitan statistical area. However, there are certain job categories that are underrepresented as outlined in Appendix E.

TRS leadership developed a diversity definition and philosophy statement and instituted a diversity council to make recommendations on workplace diversity issues relating to employees, members, external business associates and potential employees. The three initial focus areas identified are: communications, training and development, and measurement and tracking.



Technological Developments

Because the effective use of technology is key to the realization of TRS' primary mission, the Information Technology division plays an integral role in the agency planning and management. Its impact is felt in every aspect of agency operations from benefit delivery and investment management to communications and even the physical environment. TRS strives to stay abreast of emerging technology, participates in state initiatives, and continuously seeks opportunities to gain efficiencies through technological enhancements.

The agency also addresses a number of ongoing challenges, including:

- Maintaining, enhancing, and modernizing high volume, interactive transaction processing systems that support the receipt and processing of more than 8.5 million records while processing over 20 billion records non-interactively
- Utilizing technology to meet growing service demands at approved staffing levels
- Providing new and innovative benefit delivery systems to active members and annuitants through the Internet
- Staying abreast of rapid changes in technology and choosing those which aid the agency in accomplishing its goals in the most efficient manner while providing long-term viability
- Attracting and retaining qualified technical staff and training present staff in new technologies while maintaining existing applications and infrastructure

- Managing the impact of retirements by key information technology staff and management

TRS has had some notable achievements. Additionally, the agency continues to support multiple current endeavors while planning for future initiatives.

Achievements

- Information Security - Several significant initiatives have been completed: overhauled the Information Security Manual outlining our policy and primary guidelines, standards and processes; provided information security training to 445 employees increasing staff information security awareness and laying the foundation to reduce TRS risk exposure; completed annual agency-wide risk assessment; completed information classification; installed fire suppression and surveillance cameras in the computer room and key communications closets; installed a power supply in the computer room allowing 30 minutes of power in the event of a major power outage; established compliance with HIPAA privacy standards; upgraded the network firewall which included a new intrusion detection system, enhanced virus scanning, redundancy and VPN; underwent DIR security penetration test earning the highest assessment rating given.
- Self-Service Internet Applications - Several new applications were implemented to: allow members to register online for benefit presentations held statewide; provide annuity verifications and 1099Rs online; distribute newsletters to reporting officials through e-mail; allow reporting entities to view employee membership eligibility; al-

low reporting entities to submit their annual calendars and update their contact information; provide online educational videos to our membership through streaming video services.

- Information Resources Steering Committee (IRSC) - This committee was established to direct and monitor the investment in and implementation of information technology (IT) initiatives to ensure that projects remain directed towards attaining agency goals and objectives. To accomplish this, the IRSC reviews project proposals and determines appropriate action; sets priority for authorized projects; reviews status of active projects including resources and risks; ensures adequate allocation of resources to carry out approved projects; reviews the Information Resources Strategic Plan to ensure continued applicability and alignment with agency strategic business goals. The IRSC meets monthly and is chaired by the deputy director. Other members of the IRSC are the chief investment officer, chief benefit officer, chief financial officer, general counsel and director of communications. The director of internal audit is a non-voting member of IRSC. The director of information technology and the manager of the Project Management Office are resources to the IRSC.
- Project Management Office - This office was created to improve project success rates and establish system development methodologies. Under this office, a quality assurance function has been formalized. A software engineering process group has been established to further refine and streamline the system development methodology.

- Data Administration - The roles and responsibilities of a data administrator were established, the position filled and the enterprise logical data model completed.
- Interactive Voice Response System - The TRS voice response system was upgraded to current technology. Menu options were streamlined. Benefit counselors' desktop application has been enhanced and further integrated with computer data for improved service and responsiveness to the membership.
- TRS Reporting and Query System (TRAQS) - The use of TRAQS by reporting entities to submit monthly reports to TRS via the Internet has increased dramatically over the last two years. As of May 2004, 1209 or 89 percent of the 1356 reporting entities have submitted reports through TRAQS. The goal is to have the remaining 11 percent migrated to TRAQS by December 2004. Benefits achieved through the use of TRAQS are: the reduction of paper reports and forms; the entities ability to achieve "complete" status quicker as a result of multiple processing times each day; member refunds are processed quicker due to reports completing faster; provides the reporting entity access to member information to identify employees subject to the 90-day waiting period.
- General Accounting Systems - Existing applications were upgraded to enhance usability and improve integration with other business functions and external entities.
- Document Imaging System - The imaging support application was enhanced with the development and implementation of a re-indexing application. Using auto-imaging

technologies, 367,268 documents were auto-imaged from the enterprise server to the imaging system. The former process was manual and was performed by TRS imaging staff. Tuning of the imaging system has greatly improved document retrieval times. New hardware and software implemented for backup and recovery of the imaging system has decreased the required time to perform these key operations and assures availability and reliability of imaging resources.

- Network Infrastructure - Eighty aging PC workstations were replaced and all systems were converted to Windows 2000 Professional. New hardware and software implemented for backup and recovery of the network has decreased the required time to perform these key operations and assures availability and reliability of network resources. A new directory service was implemented for improved centralized management and security.
- Lights-Out Computer Operations - TRS implemented Lights-Out processing in the computer room by using a job scheduler and streamlining the nightly batch processes. This has reduced the need for personnel by one FTE.
- Decentralized Print Solution - TRS expanded the number of distributed printers throughout the agency and moved the high-capacity enterprise printers closer to department users to reduce report sorting and delivery time.
- Storage Area Network (SAN) Technology - TRS installed a state-of-the-art computer storage that supports all computer platforms of the agency.

Current Initiatives

- Completely redesign and implement an updated Web site for TRS that will allow easier, more direct access to information.
- Add increasing levels of functionality to our Web site to provide members and annuitants alternatives for conducting business with the agency and for access to general and specific information regarding their TRS accounts.
- Complete a project currently under way that will allow members to receive TRS newsletters through the use of e-mail.
- Expand the use of streaming video services through the TRS Web site. Initial projects include education on the use of TRAQS for reporting entities and information to members on employment after retirement.
- In conjunction with increased levels of service via the Internet, TRS will continue to research and implement the necessary levels of security to ensure protection of TRS automated systems and privacy of the users.
- Plan and procure a Z/OS capable enterprise server to support the legacy applications, future development in Natural for DB2 and the DB2 database. This ensures that the database of record remains on the enterprise server and isolated from service applications developed for the Web.
- Modernize and redesign legacy benefit delivery systems and implement.

- Implement a standardized presentation layer for enterprise server applications to present a common view of the applications as well as to simplify the training and maintenance of in-house applications.
- Continue migration to DB2 relational database management systems to replace obsolete file types and to provide the ability to create more flexible applications.
- Design and implement solutions to complex TRS-Care eligibility requirements.
- Design and implement an overall network monitoring and reporting infrastructure, consolidating current tools to provide a cohesive network management dashboard.
- Expand the enterprise-messaging infrastructure by upgrading e-mail and other messaging systems; implementing agency-wide e-mail archival and retention management; provide support for internal and external Instant Messaging (IM); implement advanced SPAM filtering.
- Expand use of Storage Area Network (SAN), migrating mission-critical server storage to leverage the SAN's data protection, backup/recovery and performance improvements.
- Migrate computer desktops to the latest operating system and Microsoft Office product suite, which will enhance workstation stability, security and user efficiency.
- Implement encryption on all data from the enterprise server that is electronically sent outside of TRS for business purposes.

- Expand data classification with role-based access to improve the ability to determine the appropriate access to computer systems for TRS staff.
- Test newly implemented backup and recovery software, hardware and procedures to ensure business continuity in the event of a disaster.

Future Initiatives

- Continue to add increasing levels of functionality to our Web site to provide members and annuitants alternatives for conducting business with the agency and for access to general and specific information regarding their TRS accounts. TRS will continue to research and implement the necessary levels of security to ensure protection of TRS automated systems and privacy of the users.
- Continue the initiative to modernize and redesign legacy benefit delivery systems.
- Investigate the use of wireless technologies and implement where appropriate based on the business case of TRS.
- Investigate the use of biometrics and implement where appropriate for security and access purposes as well as for single sign-on to the many systems used by TRS staff.
- Investigate and implement e-mail encryption for both internal and external e-mail communications as appropriate.
- Investigate the ability for staff that uses core TRS applications to access those applications completely and effectively from a remote location.
- Enhance electronic communication with the board of trustees.

Risk Management

TRS strives to ensure that potential exposures are assessed and reasonable controls are implemented to minimize risk in all aspects of agency operations, including information resources, mission-critical functions and physical security.

Achievements

- Completed a biennial review and update of the Business Impact Analysis with the business units.
- Implemented a formal TRS Business Continuity Management Policy.
- Completed development, documentation and exercising of the Incident Management Team plan.
- Successfully implemented Memoranda of Understanding with peer agencies in support of the TRS Business Continuity Program (i.e. Department of Information Resources for usage of the Austin Disaster Recovery Operations Center (ADROC), Texas Department of Transportation for usage of telephones staged at the ADROC, Texas Building and Procurement Commission for usage of their mail room).
- Successfully documented and implemented 15 of 16 identified business continuity plans that address the operational aspect of business resumption. The final business continuity plan is targeted for completion July 2004.
- Completed the annual fixed income inventory with 100 percent accountability of controlled assets.

- Ten work centers were proactively reconfigured in a manner which allow safe and efficient workflow as recommended by ergonomic assessments.
- Coordinated flu shot immunizations onsite with over 100 participants.
- Provided a formal presentation on business continuity to the Association of Public Pension Fund Auditors (APPFA).
- Implemented a business resumption plan whereby TRS provides recovery support for the Employees Retirement System.

Current Initiatives

- Finalize a Memorandum of Understanding with the Texas Department of Transportation for contingency Web site service.
- Finalize the one remaining business continuity plan in July 2004.
- Provide business continuity and disaster recovery plan training, enabling all teams to maintain their own business continuity and disaster recovery plans.
- Conduct the annual fixed assets inventory for current fiscal year.
- Research hot site contractor renewal options to provide cost savings and technology enhancements.
- Schedule a hot site exercise after a hot site vendor is identified.

- Actively involved in monitoring insurance coverage and providing suggested changes as required.
- Continue development of an agency wellness program.

Future Initiatives

- Revise the TRS Risk Managers Manual.
- Monitor the hot site contract for technology changes and business process changes at TRS.
- Monitor adherence to the TRS Business Continuity Management Policy.
- The TRS Risk Manager will pursue an Associate of Risk Management (ARM) certification.
- Continue enhancing the agency wellness program in concert with management approval.
- Increase business unit participation in hot site exercises.
- Coordinate closely with the State Office of Risk Management on securing insurance coverage for TRS.
- Closely monitor the existing physical security program for required changes.

TRS is committed to maintaining and expanding its risk management efforts including maintaining a proactive business continuity program, continuing to refine existing safety programs and strengthening physical security as required.

Based on these assessments, it is clear that the legislature, the board of trustees, and TRS members and staff can take pride in the strength and far-reaching positive impacts of the fund.

By fulfilling its mission to provide secure retirement and related benefits to Texas public school employees, TRS makes a significant contribution toward the state's priority goals relating to education, health and human services, economic development, and general government.

Because of the dynamic nature of the pension fund and health insurance industries, TRS must address significant challenges in the coming years. These challenges are outlined on the next page, followed by the key strategies TRS has developed to address them. These strategies are noted under "Commitments" in the Core Competencies section.

Major Challenges

TRS will continue to face significant challenges during the 2005-2009 strategic planning period. These challenges are represented within four major categories.

Funding

- Managing the pension trust fund to promote actuarial soundness with a long-term perspective
- Achieving a long-term eight percent rate of return on investments
- Providing for cost-of-living increases for retirees will be difficult given the current benefit and funding structure
- Securing adequate funding to sustain the financial viability of the retiree health care plan (TRS-Care)
- Projecting future needs for the TRS-ActiveCare program and establishing appropriate contingencies to address them

Membership

- Maintaining high standards of customer service in the face of significant membership growth
- Providing innovative mechanisms for delivering member benefits
- Providing effective communications given the complexity of the different eligibility requirements for health care versus annuity benefits

Legislation

- Anticipating and being prepared to respond to the needs of state leadership
- Working effectively with policymakers as they consider benefit measures affecting TRS members and retirees
- Staying informed about federal legislation that may impact TRS members
- Developing timely and efficient plans for implementing changes in federal and state laws
- Reporting to the legislature/state leadership regarding continued implementation of the TRS-Active Care program

Operational/Staffing

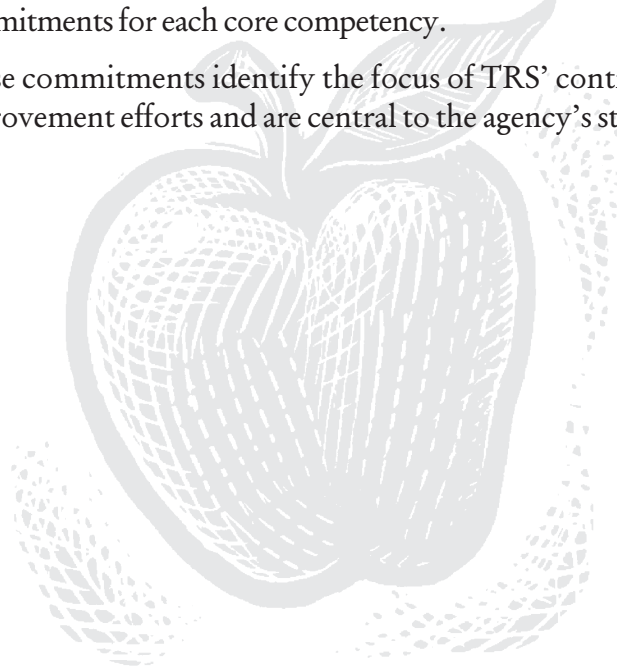
- Ensuring continuity of institutional knowledge
- Attracting and retaining competent and skilled staff members
- Increasing the efficiency and effectiveness of agency personnel and processes to handle growing workloads at approved staffing levels
- Identifying and understanding the needs and desires of TRS' external stakeholders
- Being prepared to adequately respond to the needs of other public entities relative to TRS

TRS Core Competencies

- ♦ **Benefit delivery**
 - ♦ **Investment management**
 - ♦ **Communication with stakeholders**
 - ♦ **Workforce contribution**
-

In the following pages, TRS reviews its accomplishments and commitments for each core competency.

These commitments identify the focus of TRS' continuous improvement efforts and are central to the agency's strategic plan.



Benefit Delivery: Retirement Benefits

We are dedicated to professional, accurate, timely, and cost-effective delivery of services and benefits to members, annuitants, and their beneficiaries.

Accomplishments

- ✓ TRS serves a diverse population of 1,080,768 active and retired members, which includes personnel employed in 1,356 reporting entities throughout the state.
- ✓ In FY 2003, TRS processed retirements for 19,635 members, which was an 18 percent increase from FY 2002. During the same fiscal year, active membership in TRS increased by 14,066.
- ✓ TRS implemented new legislation, passed by the 78th Texas Legislature, related to:
 - return to work,
 - ERS/TRS withdrawn service for transfer purposes,
 - the 90-day membership waiting period, and
 - collection of benefit overpayments.
- ✓ Through its toll-free telephone counseling center, TRS answered 445,305 calls from members and retirees in fiscal year 2003.
- ✓ Face-to-face meetings in TRS offices were held with 9,736 members during FY 2003.

- ✓ The TRS interactive voice-response system handled 122,967 calls during fiscal year 2003. It has three important features: (1) an automated system for providing general information, (2) a function that allows members to request forms, and (3) a personal identification number system so properly identified members may access specific information about their TRS accounts. Design began in 2003 for implementation in 2004 of a new speech recognition feature.

Commitments

We will:

- ✓ Utilize performance standards and an effective performance measurement program to enhance the consistent and timely delivery of quality service to our membership.
- ✓ Use technology and communication tools to enhance our delivery system capacity in order to meet the increased demands of a growing and diverse membership.
- ✓ Implement cost-effective technology tools to educate our members about their retirement options and increase their access to information about their benefits.
- ✓ Extend our commitment to excellence and flexibility in delivering retirement and death benefits, and strive to continuously improve our service.
- ✓ Continue to survey similar benefit providers in both the public and private sectors to identify practices that offer potential improvements for TRS.

- ✓ Continue to provide superior training to our employees, equipping them to efficiently serve our members and meet the increasing demands of the growing membership.
- ✓ Continue to conduct customer service surveys to ensure continued high-quality service to our members.
- ✓ Provide performance reporting to ensure that stakeholders are informed of fund operation and results.
- ✓ Allocate resources to their most productive, mission-oriented uses.
- ✓ Effectively implement benefit changes approved by the legislature.

Benefit Delivery: TRS-Care Health Care Program

We are dedicated to professional, accurate, timely, and cost-effective delivery of services to plan participants.

Accomplishments

- ✓ TRS administers TRS-Care, which provides medical and pharmacy benefits for retired public school employees and their dependents. As of August 31, 2003, there were approximately 163,000 participants in the plan.
- ✓ TRS-Care successfully negotiated separate contracts for medical claims administration and pharmacy benefit management, resulting in significant projected savings to the TRS-Care fund.
- ✓ TRS-Care continued a Medicare HMO pilot program for the Dallas-Fort Worth region.
- ✓ TRS-Care restructured its participating provider network to realize an additional \$50 million in fee savings.

Commitments

We will:

- ✓ Effectively oversee the administration of the health care fund to ensure that quality benefits are provided at a competitive cost.
- ✓ Continue to compare our plans with similar plans, including analyses of comparative costs and premiums.

- ✓ Continue to conduct member satisfaction surveys to ensure continued high-quality service to plan participants.
- ✓ Seek specific areas where performance may be improved through changes in plan design and program administration.
- ✓ Provide performance reporting to ensure that stakeholders are informed of fund operations and results.
- ✓ Continue to educate plan participants, in collaboration with the claims administrator and pharmacy benefit manager, to optimize benefit participation.
- ✓ Continue to work with the legislature in the effort to resolve funding requirements of TRS-Care.

Benefit Delivery: TRS-ActiveCare Health Care Program

We are dedicated to professional, accurate, timely, and cost-effective delivery of services to plan participants.

Accomplishments

- ✓ The 77th Texas Legislature passed legislation that required TRS to develop a uniform statewide health care plan for public educators. TRS successfully implemented the program effective September 1, 2002. The plan initially served school districts with less than 1,000 TRS members, charter schools, regional education service centers, and other educational districts. The law also allowed for the program to be offered to large school districts if the TRS Board determined that it was economically and administratively feasible to do so. In November 2002, the TRS Board made such a determination. As of May 2004, more than 1,000 entities were participating in TRS-ActiveCare. Approximately 153,000 employees plus 95,000 dependents, almost a quarter of a million individuals, were covered under the program, making it one of the nation's largest health coverage programs for public employees.
- ✓ TRS was required to offer two plans, with the lowest plan offering benefits valued comparably with TRS-Care 2 and the highest plan being comparable to HealthSelect, the plan offered through the Employees Retirement System of Texas to state employees. TRS was also allowed to offer plans between these two parameters. TRS offered three plans meeting the requirements established by the 77th

Legislature. Effective September 1, 2003, TRS-ActiveCare provided more plan choices to employees by offering three Health Maintenance Organizations (HMOs) in certain service areas. Effective September 1, 2004, there will be four HMOs offered.

- ✓ The State Auditor's Office conducted an audit of the implementation of TRS-ActiveCare. As part of this audit, a survey of school districts and other participating entity administrators was performed to determine overall satisfaction with TRS-ActiveCare. Results indicated that most administrators are satisfied with TRS-ActiveCare and the majority responded favorably to questions regarding implementation of the program.
- ✓ TRS successfully negotiated renewal contracts for medical claims administration and pharmacy benefit management. TRS also successfully negotiated contracts with four HMOs.
- ✓ Two enrollment periods were offered for School Year 2004-2005.
- ✓ TRS provided training for benefit administrators of entities participating in TRS-ActiveCare. The training took place in the 20 education service centers throughout the state.

Commitments

We will:

- ✓ Effectively oversee the administration of the insurance program to ensure that quality benefits are provided at a competitive cost.

- ✓ Continue to compare our plans with similar plans, including analyses of comparative costs and premiums.
- ✓ Conduct customer service surveys to ensure continued high-quality service to plan participants.
- ✓ Identify specific areas where performance can be improved through changes in plan design and program administration.
- ✓ Provide performance reporting to ensure that stakeholders are informed of program operations and results.
- ✓ Provide education to plan participants in collaboration with the claims administrator and pharmacy benefit manager to optimize benefit participation and utilization.

Benefit Delivery: TRS-HRAccount Health Care Program

We are dedicated to professional, accurate, timely, and cost-effective delivery of services to program participants.

Accomplishments

- ✓ The 78th Texas Legislature passed legislation that required TRS to develop a health reimbursement arrangement (HRA) program for public educators. TRS has actively worked to develop this program with an effective date of September 1, 2004. HRAs are structured to provide a non-taxable benefit to employees when the funds are used for qualified health care expenses. The new TRS-HRAccount program replaces supplemental compensation. Approximately 500,000-600,000 participant accounts will be established and maintained in the first year.
- ✓ TRS selected a vendor for administration of the program. The vendor's responsibilities will include establishing and maintaining a TRS-HRAccount for each participant, interfacing monthly with over 1,200 employing entities to obtain eligibility data, and reimbursing employees and paying claims for qualified health care expenses.
- ✓ TRS provided training for benefit administrators for all school districts, charter schools, education service centers, and other educational districts. The training took place in the 20 education service centers throughout the state.

Commitments

We will:

- ✓ Effectively oversee the administration of the health reimbursement arrangement program to ensure that quality benefits are provided at a competitive cost.
- ✓ Conduct customer service surveys to ensure continued high-quality service to participants.
- ✓ Identify specific areas where performance can be improved.
- ✓ Provide performance reporting to ensure that stakeholders are informed of program operations and results.

Benefit Delivery: Long-Term Care Insurance Program

We are dedicated to offer quality long-term care insurance coverages at affordable rates for members who want and need extra protection.

Accomplishments

- ✓ Maintained the long-term care insurance Web site to provide members and retirees with immediate, up-to-date information about the TRS sponsored group long-term care insurance program and important long-term care information.
- ✓ Conducted an open enrollment for active public school employees who were eligible for the group long-term care insurance program.
- ✓ Extended the current rates for the group long-term care insurance program to September 30, 2006.
- ✓ Group long-term care insurance program training sessions were conducted in all 20 Education Service Centers for benefit administrators from over 1,000 districts.
- ✓ Over 95 group long-term care insurance program presentations were conducted in school districts that had requested onsite meetings.
- ✓ In response to recent legislation, TRS modified the period of time during which new TRS members can enroll in the group long-term care insurance program without evidence of good health.

- ✓ Participation in the group long-term care insurance program now exceeds 9,250 enrollees and dozens of people have had long-term care expenses paid by this coverage.

Commitments

We will:

- ✓ Continue to evaluate TRS group long-term care insurance plans, including analyses of comparative benefit features and premiums.
- ✓ We will work with the carrier to modify its underwriting guidelines to allow new service retirees 31 days from their retirement date to apply for long-term care coverage using a short form with fewer health questions.
- ✓ Conduct a competitive bid process as required by law for the long-term care program by September 30, 2006.
- ✓ Conduct customer service surveys to ensure continued high-quality service to plan participants.
- ✓ Continue to educate plan participants to optimize benefit participation.
- ✓ Continue to monitor federal legislation that may impact long-term care insurance plans.

Investments

We are dedicated to the prudent management of assets held in trust for our members and their beneficiaries, seeking a long-term investment return that exceeds the established actuarial rate of return.

Accomplishments

- ✓ An independent audit completed in 2002 by Independent Fiduciary Services, Inc. (IFS) for the Legislative Audit Committee found "...the investment program and practices of the TRS to be well structured and operated in an effective and professional manner." IFS further found TRS' "investment program and processes are emblematic of 'best practices' utilized by other large pension funds."
- ✓ For the previous 10-year period ending August 31, 2003, the total time-weighted return on TRS investments was 8.5 percent. This performance exceeded the actuarially targeted rate of return of eight percent and far exceeded the rate of inflation.
- ✓ With a prudent mix of asset classes and investment risk controls, internal management achieved outstanding results ahead of the fund's composite benchmark for the five-year and 10-year periods ending August 31, 2003.
- ✓ The asset/liability modeling study was reviewed in 2003, which led to recommended changes in the asset mix. Those recommended changes are currently being implemented by the trustees, consultants and staff.

Commitments

We will:

- ✓ Maintain a focus on optimizing prudent investment management effectiveness.
- ✓ Continue to analyze and adjust our asset allocation to achieve optimal returns within prudent levels of risk.
- ✓ Continue to monitor best practices in fund management.
- ✓ Strive to conduct investment activities in the most ethical, effective, and efficient manner.

Communication

Communicating effectively with key stakeholders is one of TRS' four core competencies. Clear communication is important as TRS membership grows, demographics change, and different population segments have varying familiarity with and access to evolving technology. TRS places a high priority on timely, accurate, and meaningful communications to share information, solicit feedback, improve decision making, and build an ever-stronger commitment to achieving our mission.

Accomplishments

- ✓ TRS publications provided comprehensive information regarding member and retiree benefits, including those benefit enhancements enacted by the 78th Legislature.
- ✓ TRS widely disseminated information on TRS-ActiveCare, the health care benefits program that was implemented in 2002 for eligible Texas school employees. Print materials, videos, Web-based communications, and other means were utilized to get the word out to district and school officials, TRS members, and the general public. A multi-media training program was developed for benefit coordinators, and orientation meetings were conducted.
- ✓ The TRS *Comprehensive Annual Financial Report* earned a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) each year for the past 13 years.
- ✓ TRS commissioned the University of North Texas to conduct a member satisfaction survey of TRS members and annuitants. Survey results will assist the agency to improve service provided to members and the public-at-large.
- ✓ A new and improved brochure describing special service credit was introduced for members. The brochure explains in detail the types of service credit available to TRS members, how the credit is earned and how it can be purchased.
- ✓ TRS contracted with the University of North Texas to conduct focus group meetings to solicit member suggestions as to how TRS could improve service quality. TRS used member suggestions from these meetings to implement service improvements.
- ✓ The TRS Web site was enhanced following the 2003 legislative session by including information relating to new legislation. The agency has also continued to improve its Web site by redesigning the site for easier navigation; enabling members to register online for benefit presentations; developing an interactive table of contents for the *TRS Benefits Handbook*; streamlining the online employment application process and TRS Forms page; enhancing the TRS online service credit purchase calculator; enabling visitors to access TRS rules in a more timely manner; expanding the number of frequently asked questions; and introducing the first of several planned streaming video projects to help TRS members learn about their benefits.
- ✓ The agency has also enhanced its automated telephone system to enable more effective communication with members and the public-at-large. A new automated telephone information system with speech recognition capabilities and enhanced desktop applications has streamlined telephone call processes. Additional telephone center improve-

ments are now being implemented and are planned for the future.

Commitments

We will:

- ✓ Strive to improve relations and communication with our internal and external stakeholders.
- ✓ Assess and adjust communication efforts to ensure that they anticipate and address stakeholder information needs.
- ✓ Position ourselves to collaborate with state leadership in fulfilling our mission by providing prompt, accurate information for successful planning and decision-making.
- ✓ Form effective partnerships with other state agencies to better serve our respective constituencies.

Workforce Contribution

We support the employees of TRS and recognize that TRS achieves its mission through both their individual success and their efforts as a team.

Accomplishments

TRS Human Resources Management conducted a comprehensive survey of HR customers (in particular, TRS managers) to ensure a strategic focus and effective partnership with senior management. This guided the direction that led to the following accomplishments:

- ✓ TRS enhanced its *Workforce Diversity Program*, by defining “diversity” and creating a diversity philosophy statement; and establishing an employee diversity council, which has identified three priority items: communication, training and development, and measurement and tracking.
- ✓ TRS continues to enhance efforts to attract and retain a diverse, well-qualified workforce by maintaining effective compensation, performance, recruitment, and staff development programs.
- ✓ TRS continues to participate in the *Survey of Organizational Excellence*. Results of the 2004 survey reflect that TRS employees continue to view the organization as a respectful, positive work environment as outlined in Appendix F.
- ✓ TRS thoroughly analyzed its recruitment and selection process, making changes to enhance our ability to recruit a diverse, well-qualified workforce in a consistent, legal and fair manner.

- ✓ TRS developed a Compensation Philosophy to guide salary administration decision-making and a compensation strategy to ensure the allocation of appropriate resources necessary for an effective compensation program.
- ✓ TRS provides ongoing sessions designed to enhance teamwork and productivity to work groups upon request.
- ✓ TRS provided several leadership development opportunities to managers and team leaders during the past biennium. Topics included workforce planning, creative thinking, and the styles and techniques of well-respected leaders such as Sir Earnest Shackleton. Managers also participated in a developmental planning process for strengthening one's contribution to the organization while also ensuring one's satisfaction on the job.
- ✓ TRS offers job-specific training and computer skills training to employees on a regular basis to enhance productivity.
- ✓ All employees periodically participate in workshops covering such topics as Equal Employment Opportunity and Information Security to ensure that TRS is an organization known for its integrity and respect.
- ✓ TRS uses alternative learning strategies, including Web-based training and a library of videos and other self-study resources.

Commitments

We will:

- ✓ Continue to enhance agency efforts to attract and retain a diverse, well-qualified workforce by maintaining effective

compensation, performance, recruitment, and staff development programs, and fostering an inclusive, respectful workplace.

- ✓ Through performance-based appraisals, hold employees accountable for their actions and for the results needed to achieve the agency's mission.
- ✓ Use the Workforce Plan in Appendix E to guide agency efforts in retaining employees, where possible, and where not, to ensure the retention of institutional knowledge.

TRS Strategic Goals

TRS Strategic Goals

GOAL: To administer the system as an employee benefit trust

OBJECTIVE: To manage an actuarially sound retirement system that maintains an amortization period of less than 30 years and generates a five-year average investment return of at least eight percent.

Outcome Measures:

- Percent of TRS retirees rating TRS member services as satisfactory or better
- Number of years to amortize the unfunded actuarial accrued liability
- Five-year average time-weighted rate of return
- TRS annual operating expense per active and retired member (excluding investment expenses)
- TRS investment expense as basis points of net assets

Strategies:

- Maintain an actuarially sound retirement system for public education employees with a funding period less than 30.9 years. Estimated.
- Maintain an actuarially sound retirement system for higher education employees with a funding period less than 30.9 years. Estimated.
- Provide services to members, manage investments, and administer TRS retirement fund.

Explanatory/Input Measures:

- Number of TRS public education annuitants
- Number of TRS active public education members
- Number of TRS higher education annuitants
- Number of TRS active higher education members

Output Measures:

- Number of TRS benefit applications processed
- Number of member accounts serviced

Efficiency Measures:

- Percent of TRS retirees who receive their first annuity within 31 days of their effective retirement date
- Average customer hold time for calls received on toll-free number (in minutes)

OBJECTIVE: To administer a health care program for public education retirees.

Outcome Measures:

- Percent of TRS-Care participants rating TRS-Care services as satisfactory or better

Strategy:

- Administer group health care benefits to public education retirees through the TRS-Care program by monitoring the performance of contracted benefit providers, communicating health care plan features and resolving benefit disputes. Estimated.

Explanatory/Input Measures:

- Number of TRS members participating in TRS-Care
- Number of total participants in TRS-Care

Output Measures:

- Dollar amount of participating network savings

Efficiency Measure:

- Percent of TRS-Care claims adjudicated within 14 days of receipt

OBJECTIVE: *To administer a health care program for public education employees.*

Outcome Measures:

- Percent of TRS-ActiveCare participants rating TRS-ActiveCare services as satisfactory or better

Strategy:

- Administer group health care benefits to public education employees through the TRS-ActiveCare program by monitoring the performance of contracted benefit providers, communicating health care plan features and resolving benefit disputes. Distribute supplemental funds to public education employees to purchase health care benefits or enhance compensation. Estimated.

Explanatory/Input Measures:

- Number of TRS members participating in TRS-ActiveCare
- Number of total participants in TRS-ActiveCare

Efficiency Measure:

- Percent of TRS-ActiveCare claims adjudicated within 14 days of receipt

GOAL: TRS will promote policies governing purchasing contracts that foster meaningful and substantive inclusion of historically underutilized businesses

OBJECTIVE: *To include historically underutilized businesses (HUBs) in at least 20 percent or greater of the total value of contracts and subcontracts awarded annually by the agency in purchasing contracts.*

Strategy:

- Develop and implement a plan for increasing the use of historically underutilized businesses through purchasing contracts and subcontracts

Outcome Measures:

- Percent of total dollar value of purchasing contracts and subcontracts awarded to HUBs

Output Measures:

- Number of HUB contractors and subcontractors contacted for bid proposals
- Number of HUB contracts and subcontracts awarded
- Dollar value of HUB contracts and subcontracts awarded

Appendices

APPENDIX A

TRS Strategic Planning Process

- In preparing the 2005-2009 strategic plan, the Core Team launched internal and external assessment efforts to update the last written plan document.
- Employee input solicited in the comprehensive assessment process used during the development of the 2003-2007 plan, *Shaping the Future*, continued to serve as a valuable foundation for the 2005-2009 plan.
- Informal discussions were encouraged at all levels of the organization to gather updated information as well as new ideas for inclusion in the plan.
- Information learned from the most recent Survey of Organizational Excellence (employee survey) was incorporated in the new plan.
- Feedback from active and retired members (2004 Member Satisfaction Survey) was also incorporated during the planning process.
- TRS chief officers, in conjunction with Human Resources, developed a Workforce Plan, which is now part of the new plan. Input was gathered from leaders throughout TRS to aid in this process.
- Using the overall themes that emerged from the internal and external assessments, the Executive Council members identified key challenges TRS is likely to face over the next five years, and strategies for addressing them.
- As staff revisions transformed the previous plan into the new strategic plan, drafts were reviewed and edited

extensively not only by management but also by the technical staff involved in each area.

- Accomplishments, especially those attained since the submission of the last strategic plan, as well as new commitments have been highlighted in the new plan specifically with regard to the TRS core competencies.

Strategic Planning Steering Committee

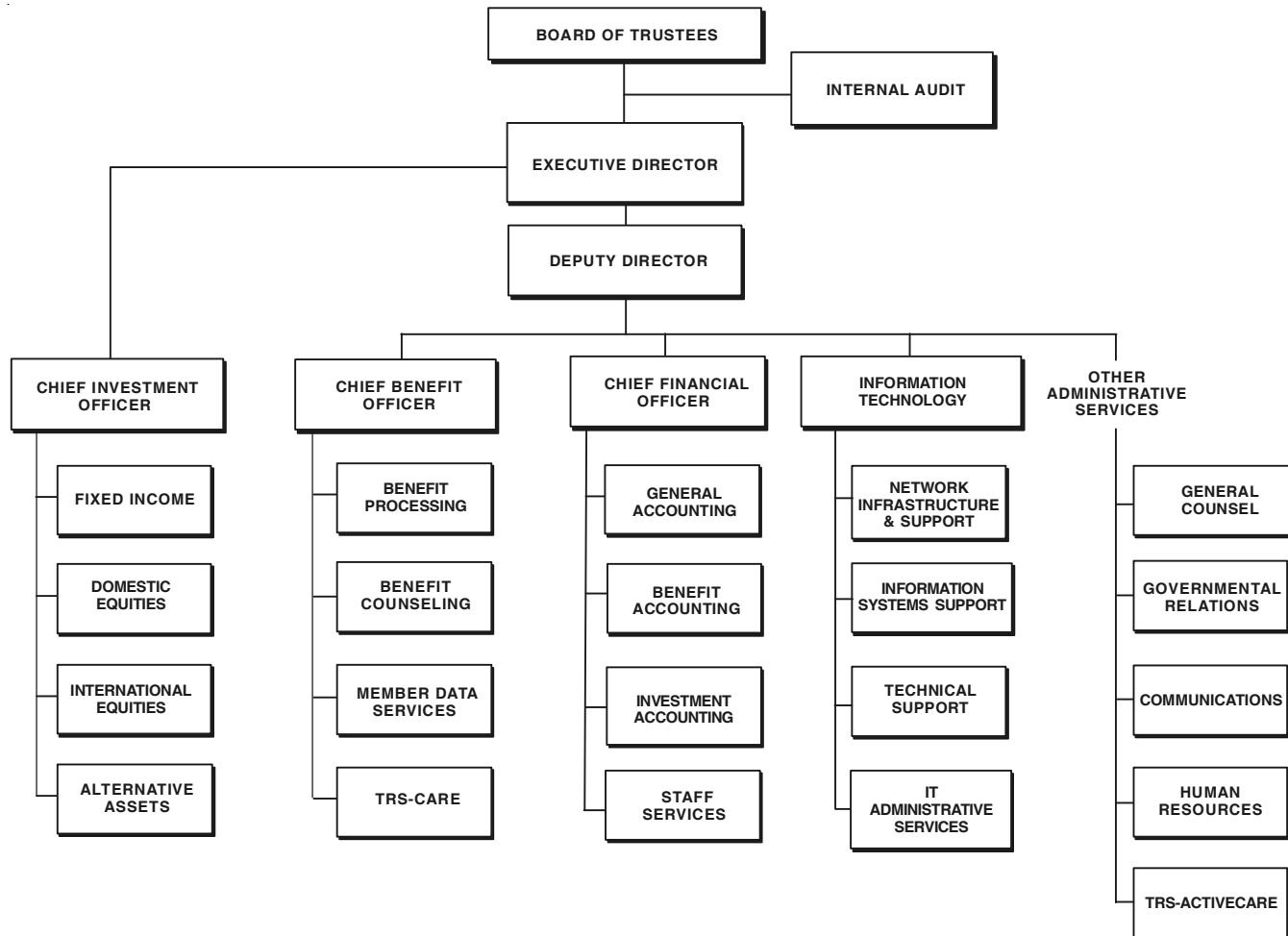
Ronnie Jung, Executive Director
Marianne Woods Wiley, Chief Benefit Officer
Tony Galaviz, Chief Financial Officer
Jim Hille, Chief Investment Officer
Amy Morgan, Director of Information Technology
Conni Brennan, General Counsel
Pattie Featherston, Director of Governmental Relations
Howard Goldman, Director of Communications
Annette Dominguez, Director of Human Resources
David MacCabe, Director of Internal Audit
Frank DiLorenzo, Director of TRS-Care

Strategic Plan Core Team

Pattie Featherston
Howard Goldman
Annette Dominguez
Denise Childress
Vicki Young

APPENDIX B

TRS Organizational Chart



APPENDIX C

Projections of Outcomes for Five-Year Planning Horizon

Projections					
SOUND RETIREMENT SYSTEM	2005	2006	2007	2008	2009
Outcome Measures:					
Percent of TRS retirees rating TRS member services as satisfactory or better	90%	90%	90%	90%	90%
Number of years to amortize the unfunded actuarial accrued liability	< 31 years	< 31 years	< 31 years	< 31 years	< 31 years
Five-year average time-weighted rate of return	8%	8%	8%	8%	8%
TRS annual operating expense per active and retired member, excluding investment expenses	\$27	\$27	\$27	\$27	\$27
TRS investment expense as basis points (bp) of net assets	3 bp	3 bp	3 bp	3bp	3 bp
Output Measures:					
Number of TRS benefit applications processed	75,000	79,000	83,000	87,000	91,000
Number of member accounts serviced	8,883,750	9,150,262	9,424,770	9,707,513	9,998,739
Efficiency Measures:					
Percent of TRS retirees who receive their first annuity within 31 days of their effective retirement date	98%	98%	98%	98%	98%
Average customer hold time for calls received on toll-free number (in minutes)	3:00	3:00	3:00	3:00	3:00

Projections of Outcomes for Five-Year Planning Horizon

Projections					
RETIREE HEALTH CARE PROGRAM	2005	2006	2007	2008	2009
Outcome Measures: Percent of TRS-Care participants rating TRS-Care services as satisfactory or better	70%	70%	70%	70%	70%
Output Measures: Dollar amount of TRS-Care participating network savings	325,000,000	350,000,000	375,000,000	400,000,000	425,000,000
Efficiency Measures: Percent of TRS-Care claims adjudicated within 14 days of receipt	93%	93%	93%	93%	93%
ACTIVE HEALTH CARE PROGRAM	2005	2006	2007	2008	2009
Outcome Measures: Percent of TRS-ActiveCare participants rating TRS-ActiveCare services as satisfactory or better	90%	90%	90%	90%	90%
Efficiency Measures: Percent of TRS-ActiveCare claims adjudicated within 14 days of receipt	93%	93%	93%	93%	93%

APPENDIX D

Performance Measure Definitions

GOAL: To administer the system as an employee benefit trust.

A.1 OBJECTIVE: *To manage an actuarially sound retirement system that maintains an amortization period of less than 30 years and generates a five-year average investment return of at least eight percent.*

Outcome Measures:

1.1 Statement: Percent of TRS Retirees Rating TRS Member Services as Satisfactory or Better

Definition: This measure shows the level of satisfaction with retirement system services provided by TRS to retirees.

Purpose/Importance: This measure determines the quality of service provided by TRS to retirees.

Source/Collection of Data: The data for this measure is gathered from satisfaction surveys of a statistical sample of retirees and results are based on responses to these surveys.

Method of Calculation: An outside firm is contracted to conduct a survey to retirees which measures customer satisfaction.

Data Limitations: The survey is conducted each even numbered fiscal year. TRS cannot control the number of responses to these surveys.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Higher than target.

1.2 Statement: Number of Years to Amortize the Unfunded Actuarial Accrued Liability

Definition: This measure shows how many years are required to fund the unfunded actuarial accrued liability (UAAL) of the TRS pension fund.

Purpose/Importance: This measure is important because there are limitations placed on the length of time over which the UAAL can be funded by both the Governmental Accounting Standards Board and the State Legislature.

Source/Collection of Data: Data is collected from TRS active and retiree member records at fiscal year end. The actuary uses pension fund assets at fiscal year end.

Method of Calculation: Data is forwarded to our consulting actuary who performs an analysis of the data and subjects it to various actuarial assumptions, calculates actuarial liability, and determines the period required to amortize the liability based on certain actuarial assumptions.

Data Limitations: Active and retiree member data is collected at fiscal year end only. Financial data is calculated and audited at fiscal year end only.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Lower than target.

1.3 Statement: Five-Year Average Time-Weighted Rate of Return

Definition: This measure shows investment returns calculated on a time-weighted basis for all assets and reflects income and realized/unrealized price changes.

Purpose/Importance: The investment rate of return is an important factor in determining the ability of the pension fund to meet its funding obligations.

Source/Collection of Data: Investment data is from TRS pension fund fiscal year end accounting records.

Method of Calculation: Reported investment returns are calculated by the investment custodian based on data provided to them from TRS pension fund accounting records.

Data Limitations: The data is dependent on investment market fluctuations, specifically at fiscal year end.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Higher than target.

1.4 Statement: TRS Annual Operating Expense per Active and Retired Member (excluding investment expenses)

Definition: This measure shows the annual cost (excluding investment expenses) per member (active and retired) to operate the TRS pension fund.

Purpose/Importance: This measure provides a method to compare operating efficiencies from year-to-year

and comparison to other public pension funds.

Source/Collection of Data: The data source is the pension fund year end accounting data for the generally accepted accounting principle (GAAP) basis operating expenses, the GAAP investment expenses, and the active and annuitant membership count.

Method of Calculation: This measure is calculated by dividing the pension fund generally accepted accounting principle (GAAP) basis operating expenses, excluding GAAP investment expenses, as determined for the annual financial report, by the total number of active members and annuitants as determined for the annual financial report.

Data Limitations: The numbers required to calculate the final cost per member are not available in time to meet the deadline for submitting this measure. Preliminary numbers must be used and the final data provided when available.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Lower than target.

1.5 Statement: TRS Investment Expense as Basis Points of Net Assets

Definition: This measure shows the annual investment expenses as a percent of Net Assets.

Purpose/Importance: This calculation provides a method to compare investment operating efficiencies from year-to-year and comparison to other public pension funds.

Source/Collection of Data: This measure uses

TRS pension fund accounting numbers provided in the annual financial report.

Method of Calculation: This measure is calculated by dividing TRS pension fund generally accepted accounting principle basis investment expenses as determined in the annual financial report by the Net Assets Held in Trust for Pension Plan Benefits as determined for the annual financial report. A basis point is one one-hundredth of one percent or .01 percent.

Data Limitations: The numbers required to calculate the final basis points are not available in time to meet the deadline for submitting this measure. A preliminary basis point must be used and the final data provided when available.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Lower than target.

Strategy:

Maintain an actuarially sound retirement system for public education employees with a funding period under 30.9 years. Estimated.

Explanatory or Input Measures:

Statement: Number of TRS Public Education Annuitants

Definition: This measure provides the number of public education annuitants.

Purpose/Importance: This measure provides a year-to-year comparison of public annuitants to reflect growth.

Source/Collection of Data: This count is taken from TRS information systems AP3270 for the August 31 annuity payroll.

Method of Calculation: This measure is only a person count and not a payment count. An annuitant could have multiple payments.

Data Limitations: Data is limited to the public education annuitants who have been added to the regular August monthly annuity payroll.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Not applicable.

Statement: Number of TRS Active Public Education Members

Definition: This measure provides the number of active public education members at the end of the reporting period.

Purpose/Importance: This measure provides a year-to-year comparison of growth in active public education members at the end of the reporting period.

Source/Collection of Data: Member count is taken from Table 2 of the annual actuarial valuation report and includes total public active members and inactive members with a deferred benefit.

Method of Calculation: This measure only counts public education members who have a balance in their account.

Data Limitations: Data is limited to the public education members who have a balance in their account.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Not applicable.

Strategy:

Maintain an actuarially sound retirement system for higher education employees with a funding period under 30.9 years. Estimated.

Explanatory or Input Measures:

Statement: Number of TRS Higher Education Annuity Members

Definition: This measure provides the number of higher education annuitants.

Purpose/Importance: This measure provides a year-to-year comparison of higher education annuitants to reflect growth.

Source/Collection of Data: This count is taken from TRS information systems AP3270 for the August 31 annuity payroll.

Method of Calculation: This measure is only a person count and not a payment count. An annuitant could have multiple payments.

Data Limitations: Data is limited to the higher education annuitants who have been added to the regular August monthly annuity payroll.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Not applicable.

Statement: Number of TRS Active Higher Education Members

Definition: This measure provides the number of higher education active TRS members at the end of the reporting period.

Purpose/Importance: This measure provides a year-to-year comparison of growth in higher education active members at the end of the reporting period.

Source/Collection of Data: Member count is taken from Table 2 of the annual actuarial valuation report and includes total higher education active members and inactive members with a deferred benefit.

Method of Calculation: This measure only counts higher education members who have a balance in their account.

Data Limitations: Data is limited to the higher education members who have a balance in their account.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Not applicable.

Strategy:

Provide services to members, manage investments, and administer TRS retirement fund.

Output Measures:

Statement: Number of TRS Benefit Applications Processed

Definition: This measure provides the number of benefit claim applications processed by TRS.

Purpose/Importance: This measure provides a year-to-year comparison of growth in applications processed by TRS.

Source/Collection of Data: Information is collected from TRS computer applications, from refund report RF3020, Benefit Processing report AP2026, Claims Totals by Month DC3100, Drop Accounting DA3100.

Method of Calculation: Data is gathered from various reports and summarized on a spreadsheet with appropriate calculation.

Data Limitations: Benefit applications received must have all required documentation properly executed prior to processing the benefit payment requested. Reporting entities must have remitted a member's final retirement contribution to TRS prior to processing the benefit payment.

Calculation Type: Cumulative.

New Measure: No.

Desired Performance: Not applicable.

Statement: Number of Member Accounts Served

Definition: This measure shows the number of member deposits applied to individual member accounts each year.

Purpose/Importance: This measure shows the transaction activity for the number of member deposits applied to individual member accounts each year.

Source/Collection of Data: Transaction numbers are accumulated from daily clearance reports (program number MR1110) and compiled into a Monthly Receipt and Processing Analysis Report.

Method of Calculation: Each posting to a member's account is considered a transaction.

Data Limitations: Over 1300 TRS reporting entities must report each member's monthly payroll salary and retirement contribution.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Not applicable.

Efficiency Measure:

Statement: Percent of TRS Retirees Who Receive Their First Annuity within 31 Days of Their Effective Retirement Date

Definition: Using data from TRS information systems, all applicable transactions are searched to determine the percentage that comply with performance targets.

Purpose/Importance: This measure determines if TRS is delivering benefits in a timely manner based on all properly completed and required documentation and data elements for retirement.

Source/Collection of Data: Using data from TRS retirement information systems RT7100, all applicable transactions will be searched to determine the percentage that comply with performance targets.

Method of Calculation: Monthly RT7100 “Monthly Retiree Payment History” is reviewed and any exceptions noted.

Data Limitations: Only retirement applications which have the properly completed documentation and all required data elements from outside entities.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Higher than target.

Statement: Average Customer Hold Time for Calls Received on Toll-free Line (In Minutes)

Definition: This measure provides the average time (in minutes) it takes for a telephone call received through the toll free telephone line to be answered by a TRS benefits counselor after the call is released from the automated telephone system.

Purpose/Importance: This measure reflects the average time (in minutes) a member calling on the toll free line waits in a hold status until they are answered by a TRS ben-

efits counselor.

Source/Collection of Data: The data is calculated from the telecommunications system’s Siemens HiPath ProCenter Reporter application in conjunction with ResumeRouting, a skills-based routing software application, and Siemens Automatic Call Distribution.

Method of Calculation: The formula used to determine Average Speed of Answer (ASA) (Hold Time) value looks at the Total Wait Time for a Call Type/Contacts Received for a Call Type. The calculation is then averaged by the software to determine an overall ASA for all CallTypes/Contacts. A Call Type is determined by what a caller selects while in the Automated Response System prior to being transferred to ResumeRouting. TRS currently has 19 Call Types programmed in the ResumeRouting application. All of these Call Types are used to calculate the ASA. Contacts are any call that is transferred from the Automated Response System to the Telephone Counseling Center. The number of contacts offered includes answered and abandoned calls.

Data Limitations: The data is limited by the number of telephone calls that can be received on the toll free line during the telephone center business operating hours.

Calculation Type: Cumulative.

New Measure: No.

Desired Performance: Lower than target.

A.2 OBJECTIVE: *To administer a health care program for public education retirees.*

Outcome Measures:

2.1 Statement: Percent of TRS-Care Participants Rating TRS-Care Services as Satisfactory or Better

Definition: This measure indicates the level of satisfaction with TRS-Care services among participants.

Purpose/Importance: This measure determines the quality of service provided by TRS-Care to participants.

Source/Collection of Data: Information for this measure is gathered from satisfaction surveys provided by the health care administrators.

Method of Calculation: This measure ratings given by members responding to a satisfaction survey.

Data Limitations: TRS cannot control the number of responses to these surveys.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Higher than target.

Strategy:

Administer group health care benefits to public education retirees through the TRS-Care program by monitoring the performance of contracted benefit providers, communicating health care plan features and resolving benefit disputes. Estimated.

Output Measures:

Statement: Dollar Amount of Participating Net-

work Savings

Definition: This amount is an estimate reported by the program's benefit health consultant. This measure indicates the savings estimated from reasonable and customary charges through the discounted network participating fees.

Purpose/Importance: This measure indicates the savings estimated from reasonable and customary charges through the discounted network participating fees.

Source/Collection of Data: This amount is an estimate reported by the program's claims administrator to the benefit health consultant. The consultant provides a worksheet titled "Dollar Amount of Managed Care Savings" to TRS.

Method of Calculation: The measure is the sum of the prescription drug plan savings and the medical plan savings. The prescription drug savings is the difference between the plan price or estimated retail, less the retiree's cost. The medical plan savings is the difference between the submitted expenses less the maximum fee schedule.

Data Limitations: These are estimated amounts only and based on claims paid.

Calculation Type: Cumulative.

New Measure: No.

Desired Performance: Higher than target.

Efficiency Measure:

Statement: Percent of TRS-Care Claims Adjudicated within 14 Days of Receipt

Definition: This measure reflects the percent of claims settled within 14 days of receipt.

Purpose/Importance: This measure reflects the efficiency of claims settlement.

Source/Collection of Data: Data is provided by the program's claim administrator, through a report titled, Member Services - Claims Processing.

Method of Calculation: The number of claims adjudicated within 14 days of receipt is divided by the total number of claims received in a particular period.

Data Limitations: Complete eligibility information must be provided by TRS to the claims administrator to be included as an eligible claim.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Higher than target.

Explanatory or Input Measures:

Statement: Number of TRS Members Participating in TRS-Care

Definition: This measure shows the number of members participating in the health care program at August 31.

Purpose/Importance: This measure shows the number of members (retirees, surviving spouse, and surviving dependents) participating in the health care program at August 31.

Source/Collection of Data: The data is gathered from the TRS HEIN system and includes the member, surviving spouse and surviving dependents.

Method of Calculation: The system counts all members which reside on the eligibility file at August 31.

Data Limitations: This measure does not include dependents or beneficiaries of retirees and is taken only at fiscal year end.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Not applicable.

Statement: Number of Total Participants in TRS-Care

Definition: This measure shows the total number of participants in the health care program at August 31, including retirees, dependents and beneficiaries of retirees.

Purpose/Importance: This measure shows the total number of participants in the health care program at August 31, including retirees, dependents and beneficiaries of retirees.

Source/Collection of Data: The TRS HEIN system eligibility file.

Method of Calculation: The data includes all members with coverage which includes the retiree, surviving spouse, surviving dependent, dependent spouse and dependent children.

Data Limitations: This measure is at fiscal year end only.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Not applicable.

A.3 OBJECTIVE: *To administer a health care program for public education employees.*

Outcome Measures:

3.1 Statement: Percent of TRS-ActiveCare Participants Rating TRS-ActiveCare Services as Satisfactory or Better

Definition: This measure indicates the level of satisfaction with TRS-ActiveCare services.

Purpose/Importance: This measure determines the quality of service provided by TRS-ActiveCare to participants.

Source/Collection of Data: Information for this measure is gathered from satisfaction surveys provided by the health care administrators.

Method of Calculation: This rating is determined by members responding to a satisfaction survey.

Data Limitations: TRS cannot control the number of responses to these surveys.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Higher than target.

Strategy:

Administer group health care benefits to public education employees through the TRS-ActiveCare program by monitoring the performance of contracted benefit providers, communicating health care plan features and resolving benefit disputes.

Efficiency Measure:

Statement: Percent of TRS-ActiveCare Claims Adjudicated within 14 Days of Receipt

Definition: This measure reflects the efficiency of complete claims settled within 14 days of receipt.

Purpose/Importance: This measure reflects the efficiency of claims settlement.

Source/Collection of Data: Data is provided by the program's claim administrator and verified by periodic independent audits.

Method of Calculation: The number of claims adjudicated within 14 days of receipt is divided by the total number of complete claims received in a particular period.

Data Limitations: Complete eligibility information must be provided by participating entities to the claims administrator to be included as an eligible claim.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Higher than target.

Explanatory or Input Measures:

Statement: Number of TRS Members Participating in TRS-ActiveCare

Definition: This measure shows the number of members participating in the health care program at August 31.

Purpose/Importance: This measure shows the number of members participating in the health care program at August 31.

Source/Collection of Data: The data is gathered from the plan administrator's eligibility system and includes the member, surviving spouse and surviving dependents.

Method of Calculation: TRS counts all members which reside on the plan administrator's eligibility file at August 31.

Data Limitations: This measure does not include dependents of members and is taken only at fiscal year end.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Not applicable.

Statement: Number of Total Participants in TRS-ActiveCare

Definition: This measure shows the total number of participants in the health care program at August 31.

Purpose/Importance: This measure shows the total number of participants in the health care program at Au-

gust 31.

Source/Collection of Data: The plan administrator's system eligibility file.

Method of Calculation: The data includes all members with coverage which include the active member, dependent spouse and dependent children, and COBRA participants.

Data Limitations: This measure is at fiscal year end only.

Calculation Type: Noncumulative.

New Measure: No.

Desired Performance: Not applicable.

APPENDIX E

Workforce Plan

I. Agency Overview

The Teacher Retirement System of Texas (TRS) was formed by constitutional amendment and enabling legislation in 1937. The original responsibility of the system was to provide service and disability retirement benefits to teachers and administrators of the public school systems of Texas, including institutions of higher education. Over the years, legislation has:

- Expanded TRS membership eligibility to all public school employees (1949).
- Assigned TRS to administer a health insurance program for public school retirees (1985).
- Assigned TRS to offer an optional health insurance program for active public school employees (1995).
- Created the basis for TRS programs providing long-term care, life insurance, and disability insurance to active members and retirees (1999).
- Assigned TRS to administer a health insurance program with mandatory participation for active public school employees of certain TRS-covered employers, with phased-in participation by additional employers in the future (2001).

TRS had about 38,000 members in its first year of operation. Today, the system serves more than 860,000 members with active accounts and more than 217,000 retired members and beneficiaries. The fund's net assets have grown to \$77.6 billion at the end of fiscal year 2003. TRS still operates under Section 67, Article XVI of the Texas Constitution to provide retirement and related benefits for those employed by the public schools, colleges, and universities supported by the State of Texas.

TRS is located in downtown Austin, with more than 400 employees operating out of two adjoining buildings. The business of the agency involves two broad functions: administering benefits and managing investments. The financial, information technology, and administration areas provide essential services to the agency's mission-critical divisions (see Appendix B: Organizational Chart). To serve members throughout the state, Benefit Counseling employees travel on a regular basis to make group presentations. TRS also uses Web-based services, a sophisticated telephone counseling center, and an interactive voice response system to provide convenient service to those outside the Austin area.

Health care functions are funded separately from the pension services of the agency. A chart reflecting the budgeted Full-Time Equivalent (FTE) positions allocated to each function is shown on the following page.

Fiscal Year	Pension Fund	TRS-Care	TRS-ActiveCare	TRS Total
2004	436	16	15	467
2002	423	18	25	466
1998	378	18	0	396

Staffing increases have been a result of continued growth in membership and assets of the pension fund, as well as additional responsibilities authorized by the legislature. While growth in membership and fund size is projected to continue, TRS intends to contain future staffing needs to the greatest extent possible through enhancements in technology and the judicious use of outsourcing.

During the period covered by this workforce plan, TRS does not expect to increase its staffing for the pension plan beyond the level currently authorized. Any growth in staffing for the health care plans will be directly related to the resources required to serve newly covered school districts.

The pension trust fund administrative expenses, including those for staffing, are controlled by an annual budget approved by the board of trustees. The State of Texas appropriated budgets of \$44,360,000 and \$43,440,000, for fiscal years 2004 and 2005 (respectively) for administrative operations; however, funding comes directly from the TRS Pension Trust Fund.

The sources of the TRS Pension Trust Fund additions include state and other contributions (19.5 percent), member contributions (22.0 percent) and investment income (58.5 percent).

TRS has a low cost per member ratio at less than \$36 a year. This cost per member is one of the lowest administrative cost structures of any major public pension fund in the U.S.

A. Agency Mission

The mission of the Teacher Retirement System of Texas is:

- 1) to deliver retirement and related benefits authorized by law for members and their beneficiaries; and
- 2) to prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.

B. Strategic Goals and Objectives

TRS has two main goals:

GOAL 1: To administer the system as an employee benefit trust	
<i>Objective</i>	To manage an actuarially sound retirement system for public education and higher education that maintains an amortization period of less than 30 years and generates a five-year average investment return of at least eight percent.
<i>Strategies</i>	<ul style="list-style-type: none">● Maintain an actuarially sound retirement system for public education and higher education with a funding period under 30.9 years. Estimated.● Provide services to members, manage investments, and administer TRS retirement fund.
<i>Objective</i>	To provide a financially solvent group insurance program for retired public school employees.
<i>Strategies</i>	<ul style="list-style-type: none">● Provide group insurance benefits to retired public school employees by monitoring the performance of contracted benefit providers, communicating insurance plan features and resolving benefit disputes. Estimated.
<i>Objective</i>	To provide a financially solvent group insurance program for active school district employees.
<i>Strategies</i>	<ul style="list-style-type: none">● Provide group insurance benefits to active school district employees by monitoring the performance of contracted benefit providers, communicating insurance plan features and resolving benefit disputes. Estimated.
GOAL 2: TRS will promote policies governing purchasing contracts that foster meaningful and substantive inclusion of historically underutilized businesses	
<i>Objective</i>	To include historically underutilized businesses (HUBs) in at least 20 percent or greater of the total value of contracts and subcontracts awarded annually by the agency in purchasing contracts.
<i>Strategies</i>	<ul style="list-style-type: none">● Develop and implement a plan for increasing the use of historically underutilized businesses through purchasing contracts and subcontracts.

C. Anticipated Changes in Mission, Strategies, and Goals

While TRS does not anticipate fundamental changes in the nature of its business, it does recognize the need to adapt readily to any changes required by the legislature.

Environmental factors that are projected to affect TRS operations include:

- Participation in the TRS-ActiveCare insurance program will continue to grow over the next several years.
- Membership in the system will continue to grow, and members will increasingly expect faster service provided in various ways.
- Effectively managing diverse investment portfolios will become more complex.
- Maintaining the rate of return on investments required to satisfy actuarial assumptions will present a greater challenge.

II. Current Workforce Profile (Supply Analysis)

A. Critical Workforce Skills

The skill sets that are currently most critical to TRS operations include:

- Investment expertise, including diversified portfolio management skills
- Customer service
- Communication

- Information technology, including telecommunication, imaging, Web design and maintenance, and systems design

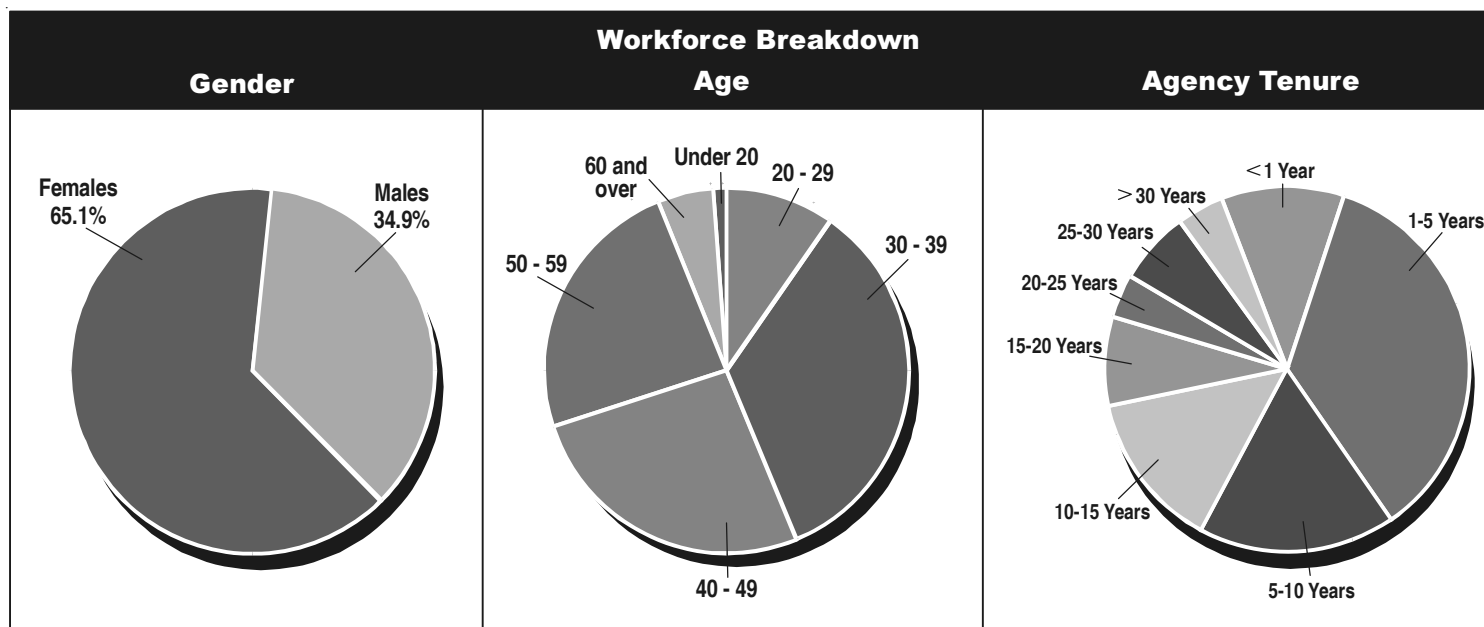
- Insurance Plan Management

- Other specialized skills (including accounting and purchasing, auditing, human resources, and legal)

TRS has been successful in attracting and developing staff with these skills to meet current and projected critical business needs. See Future Workforce Profile for further analysis.

B. Workforce Demographics

The following chart profiles the agency's workforce as of August 31, 2003 and includes only full-time classified employees. The TRS workforce is comprised of 65 percent females and 35 percent males. More than 46 percent of employees have been with TRS less than five years. Approximately 30 percent are 50 years of age or older.



The following table compares the ethnic and gender composition of the TRS workforce to the statewide civilian workforce as reported by the Texas Commission on Human Rights (TCHR, now known as the Civil Rights Division of the Texas Workforce

Commission). Categories in which TRS representation is lower than the TCHR goal are shaded on the chart. TRS actively monitors this information, and customizes its recruitment strategies to address areas of underrepresentation.

Job Category	African American		Hispanic American		Female	
	TRS %	TCHR %	TRS %	TCHR %	TRS %	TCHR %
Administrative Support	20.0%	19.6%	60.0%	25.6%	80.0%	79.9%
Official/Administrator	0.0%	7.3%	9.5%	11.6%	38.1%	31.6%
Para-Professional	13.4%	17.9%	28.5%	31.4%	87.2%	55.8%
Professional	5.1%	9.3%	13.3%	10.9%	53.1%	46.9%
Service/Maintenance	36.4%	18.4%	18.2%	44.2%	9.1%	24.9%
Technician	15.4%	13.7%	30.8%	18.9%	38.5%	39.4%

The agency’s *Workforce Diversity Program* (as required by TCHR) outlines strategies for improving the diversity of its workforce, including participation in diversity job fairs. The employment policies and practices of TRS are certified as in compliance with TCHR standards.

Because TRS is based solely in Austin, it also compares its representation of minorities and females to that of the avail-

able workforce in the Austin/San Marcos Metropolitan Statistical Area (MSA). Information from this source is not available by EEO Job Category. However, the overall representation of minorities and females at TRS exceeds that of the civilian labor force reported for the Austin/San Marcos MSA, as shown below.

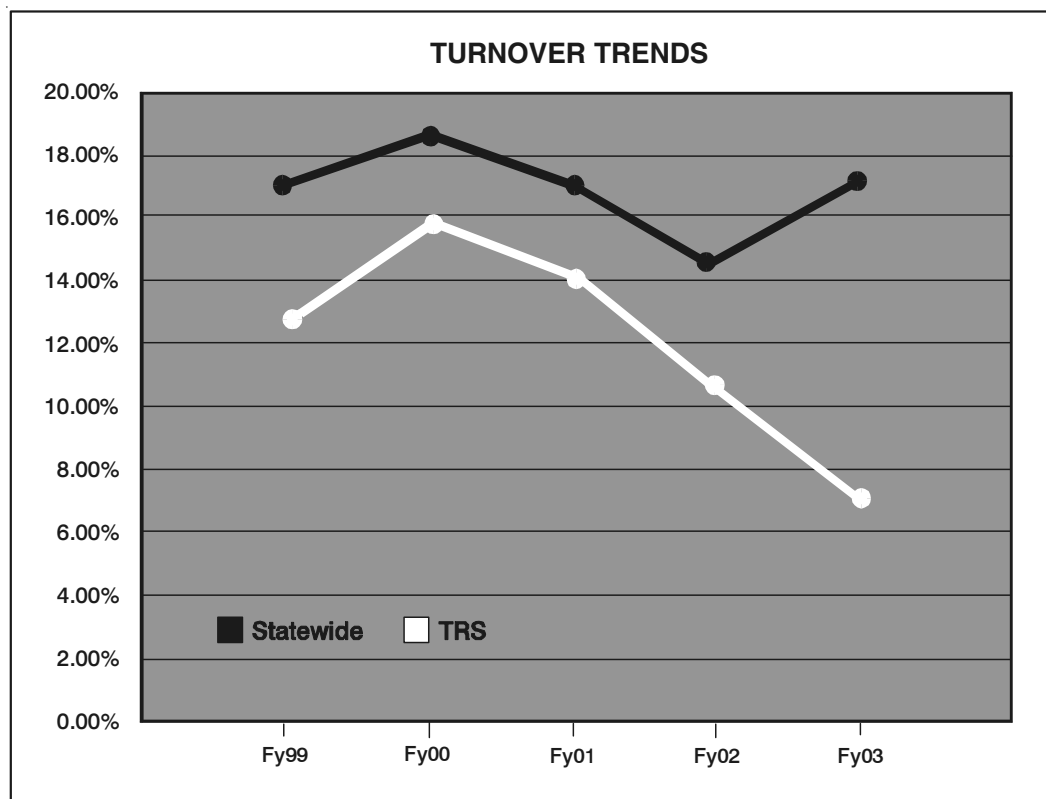
	African American	Hispanic American	Female
Total TRS Representation	9.6%	20.6%	65.1%
Austin/San Marcos MSA civilian labor force	7.9%	18.5%	46.2%

C. Employee Turnover

As reflected in the following chart, employee turnover at TRS has historically been below the statewide average among state agencies, as reported by the State Auditor’s Classification Office. TRS anticipates that if the Austin economy rebounds, the agency will experience an increase in turnover and also difficulty in replacing these workers. However, TRS projects its turnover rate will continue to be below the statewide average among state agencies for each of the next five years.

The response rate for TRS employees completing the SAO’s online exit survey was 42 percent. This rate is twice the average response rate for all state agencies. The top two reasons for leaving were retirement and enter/return to school (28 percent and 17 percent, respectively). Seventy-two percent indicate that they want to work for TRS again in the future.

TRS routinely assesses turnover by work area and other factors, such as employee tenure, so management can identify trends and take any necessary action.



D. Retirement Eligibility

Approximately 25 percent of classified, regular, full-time TRS employees will reach retirement eligibility by 12/31/2008, with nine percent currently eligible to retire. Historically, many employees have elected to continue working at TRS well beyond the time when they become eli-

gible to retire. Agency management monitors retirement eligibility by area to identify trends and take any necessary action. The following chart shows the number, percentage, and cumulative total of TRS employees who are eligible to retire over the next ten years.

ELIGIBLE	Now As of 12/31/03	In 1 year As of 12/31/04	In 2 years As of 12/31/05	In 3 years As of 12/31/06	In 4 years As of 12/31/07	In 5 years As of 12/31/08	In 10 years As of 12/31/13
Number of Employees	37	14	12	13	12	9	88
Percent of Workforce	9.1%	3.4%	2.9%	3.2%	2.9%	2.2%	21.6%
Cumulative Total		51	63	76	88	97	185

III. Future Workforce Profile (Demand Analysis)

A. Expected Workforce Changes

As the size of TRS membership continues to expand, so will demand for higher levels of efficiency that do not sacrifice customer service. Although workloads are likely to rise in proportion to the membership, TRS intends to apply technology to achieve gains in productivity that offset the increase in workloads. As a result, TRS does not currently project a need for significant increases in its Full-Time Equivalent (FTE) employee allocation. In the event that new responsibilities are assigned to the agency as a result of legislation, additional staff may be needed.

The critical functions of the agency are:

- Delivery of benefits,
- Management of investment assets, and
- Management of the agency infrastructure.

No fundamental changes are anticipated in business func-

tions or major processes of the agency. However, the agency continues to experience new challenges as a result of increasing levels of complexity and specialization in its critical functions. In the Investments area, diversification of pension fund assets (designed to enhance the stability of investment returns over time) requires specialized skill sets not previously developed within the TRS workforce. Similarly, growth in the health care plan for active members requires strategies for acquiring specialized insurance expertise. TRS continues to develop skills within the current workforce, attract new staff with the required experience, and contract with outside parties, when feasible and cost effective, to supplement the staff's expertise in highly technical or specialized areas.

B. Future Workforce Skills Needed

Communication and Interpersonal Skills

Contract Negotiation and Administration (for monitoring outsourced functions, such as insurance programs)

Customer Service Skills

Information Technology

- Telecommunication
- Imaging
- Web Design and Maintenance
- Systems Design and Maintenance

Investment Management

- Alternative Asset Management
- Portfolio Risk Management

Leadership and Management Skills

- Coaching Skills
- Skills for Managing a Diverse Workforce
- Creative Problem-Solving
- Building and Maintaining Cohesive and Effective Work Teams

Research, Process Analysis, and Project Management

Succession/Continuity Planning

- Executive Leadership
- Benefit Processing
- Portfolio Management
- Insurance Plan Management

Other Specialized Skills

- Accounting and Purchasing
- Auditing
- Human Resources/Organizational Development
- Legal

IV. Gap Analysis

Our projected future needs indicate that increasing emphasis must be placed on further developing workforce skills related to:

- Contract negotiation and administration (for monitoring outsourced functions, such as insurance programs).
- Leadership and management skills (including coaching skills, planning and problem-solving skills, and skills related to managing a diverse workforce).
- Process analysis, research, and project management.

Ensuring that TRS is positioned to effectively address emerging and future workforce challenges requires systematic and ongoing review of economic and other environmental factors. TRS is proactive in addressing prospective gaps in staffing needs, and its actions include conducting:

- Annual environmental scans and reviews of the workforce plan.
- Regular human resource needs assessments.
- Frequent labor market analyses.
- Broad reviews of other workforce trends and issues.

Anticipated Surplus or Shortage of Workers or Skills

- 1) TRS finds no appreciable gaps in worker or skill needs during the five-year planning period. Some reasons for the strong position of the agency in this area include:
 - The revised salary structure and career ladders approved by the 76th Legislature, which have improved retention among Investment professionals.

- The TRS internship program, which has provided a good source of qualified entry-level investment professionals.
 - The agency's systematic approach to training and development, which has minimized skill gaps among current staff. Employees remain current in their computer and job-specific skills.
 - Consistent efforts to enhance the organization's effectiveness (as reflected in sustained high ratings in the *Survey of Organizational Excellence* outlined in Appendix F), which have resulted in employees viewing TRS as a good place to work.
- 2) Potential gaps in worker or skill needs could develop during this period as a result of:
- Legislation assigning new or significantly expanded responsibilities to the agency.
 - Increased private sector demand (due to shifting economic conditions) for experienced staff in certain fields, such as call center representatives and investment specialists.
 - The unexpected departure of critical staff.

V. Strategy Development

TRS will continue (and consider expanding) its effective programs and practices for attracting, developing, and retaining a qualified and diverse staff. Such practices include:

- 1) **Recruitment programs** that market TRS as an employer of choice. TRS systematically promotes employ-

ment opportunities to attract a qualified and diverse workforce.

- 2) **Internship programs** in the Investments Division, which entail maintaining a relationship with leading Texas universities that offer a student Fund Management practicum. Investments' managers see this program as a method of deepening the pool of qualified professional staff and offering greater succession opportunities in the event of unexpected turnover. Because of the success of the investment internships, there is interest in pursuing internships in other areas of the organization.
- 3) **Strategic workforce management**, including the use of contingent staffing to supplement the regular workforce, redeployment of current staff, variable scheduling to meet business needs, and possibly making use of volunteer resources.
- 4) **Retention programs** that stress opportunity and skill set development as attractive incentives. Monetary retention bonuses may be used in specialized instances.
- 5) **Career ladders** approved for most positions within the agency to provide professional growth opportunities for employees within their current assignments.
- 6) **Cross-training programs** in each division, which deepen skill levels, enhance productivity, and provide back-up for important functions. Particular emphasis is placed on cross-training in areas where employees are eligible for retirement, so that the agency retains institutional knowledge.

- 7) **Leadership development efforts** to build the skills of current and prospective leaders.
- 8) **Succession/continuity plans** for critical staff, particularly those soon eligible to retire. Managers are expected to prepare others to assume key staff responsibilities for a transitional period, until a formal recruitment process has been successfully completed.

Where significant challenges arise in developing or attracting staff with the expertise required for specialized functions, TRS explores the feasibility of outsourcing all or a portion of those functions. Such decisions will be made in accordance with the agency's Contract Administration and Contract Workforce policies.

<i>Potential Gap:</i>	Legislation assigning new or significantly expanded responsibilities to the agency
<i>Goal</i>	Acquire necessary expertise to fulfill assigned responsibilities.
<i>Rationale</i>	TRS must maintain a state of readiness to implement any assignment of responsibility by the legislature.
<i>Action Steps</i>	<ul style="list-style-type: none"> ● Conduct research to identify issues affecting other public pension funds that may potentially affect TRS. ● Maintain awareness of prospective legislative changes to allow adequate planning for new skill-set requirements. ● Request a reasonable implementation period for major initiatives. ● As new requirements are identified, explore options for developing skills within the current workforce, attracting new staff with the required experience, or outsourcing certain functions.

<i>Potential Gap:</i>	Increasing market demand for experienced staff in certain fields
<i>Goal</i>	Minimize turnover among experienced staff.
<i>Rationale</i>	Retaining experienced staff is essential to fulfilling the TRS mission.
<i>Action Steps</i>	<ul style="list-style-type: none"> ● TRS regularly conducts environmental scans and labor market analyses to enable proactive retention efforts. ● The agency places emphasis on two-way communication and effective working relationships between management and staff. ● Data gathered through these efforts are used to maintain a culture and work environment that support the view of TRS as an employer of choice.

<i>Potential Gap:</i>	The unexpected departure of critical staff
<i>Goal</i>	Provide a smooth transition of responsibilities when critical staff leave the agency.
<i>Rationale</i>	TRS must ensure that critical functions are maintained despite turnover.
<i>Action Steps</i>	<ul style="list-style-type: none"> ● Managers are expected to prepare a transition plan by use of appropriate cross-training efforts, delegation, and oversight. ● Transition plans will be implemented as needed to ensure continuity of service during any period of extended absence or turnover among critical staff. ● Maintain effective recruitment practices and strategies (such as use of contingent staff, internships, and employer branding) to attract or develop qualified replacement staff.

APPENDIX F

2004 Survey of Organizational Excellence Results

TRS has continued to participate in the biennial *Survey of Organizational Excellence* administered by the UT School of Social Work. The 2004 survey is the fifth time that TRS has polled its employees.

This year, 64 percent of TRS employees responded to the survey. This represents a cumulative 18 percent increase since the 2000 survey's participation rate of 46 percent. As a general rule, rates higher than 50 percent indicate soundness, with employees having an investment in the organization, wanting to see the organization improve and generally having a sense of responsibility to the organization.

In addition to monitoring the general well-being of the agency, primary objectives for the 2004 survey were to gather employee insights on diversity-related issues and, knowing that the current environment is not conducive to salary increases, determine what non-monetary rewards within the agency's control were most valued by employees. To those ends, the agency added 20 customized questions to the standard survey. The responses to these TRS-specific questions indicate that:

- Employees have positive perceptions of TRS as a respectful, diverse workplace
- Onsite parking and casual dress are among the most highly valued "perks"; thus, they are strong tools to use in the agency's recruitment and retention efforts
- TRS employees most favor expanding the wellness pro-

gram as a non-monetary option for increasing employee satisfaction

The key area of concern expressed by employees in the 2004 survey results was "Fair Pay," a continuing trend from the preceding surveys. "Fair Pay" was the only category that fell below the 300 threshold in both this survey and the previous one. It was also among the top two categories losing points since the last survey. "Fair Pay" dropped 23 points and Benefits fell by 26 points. TRS management anticipated that these two areas would likely be lower-rated areas given the current economic environment, and thus took the initiative to add customized questions to gather employee insight on other strategies for maintaining or enhancing their job satisfaction.

Sixteen of the 20 categories received increased scores over the 2002 results and TRS once again led its benchmarks (based on survey data from peer agencies) and all respondents in all five of the survey dimensions describing key elements of organizational effectiveness. TRS employees strongly viewed the following categories as the most positive elements of working at TRS. All five received ratings of 400 or better, on a scale with 500 as the highest possible score.

- Quality (customer service, continuous improvement)
- Physical Environment (safe and positive work atmosphere)
- Strategic (vision, services provided)

- Job Satisfaction
- Time and Stress (job demands, home/work balance)

Even with the strong survey results, TRS continues to place a high priority on improving its effectiveness. The agency has shared the survey results with all employees, asked for their input on how to make TRS a better place to work, and encouraged managers to make appropriate changes within their individual departments. The agency-wide focus for this biennium is to act to improve on areas of concern within its control and to consider additional ways to build on its areas of strong performance. Efforts, such as the establishment of a diversity council and implementation of its recommended strategies, are already under way. Actions taken as a result of the survey feedback will be communicated to all employees. These results indicate that the survey made a positive difference and should further increase employee participation in the future.



TEACHER RETIREMENT SYSTEM OF TEXAS

1000 Red River Street, Austin, Texas 78701-2698

(512) 542-6400 or 1-800-223-8778

www.trs.state.tx.us